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OVERCOMING OBSTACLES AND CRAFTING OPPORTUNITY FOR OLDER WORKERS

FORUM

BEFORE THE

SPECIAL COMMITTEE ON AGING UNITED STATES SENATE

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OVERCOMING OBSTACLES AND CRAFTING OPPORTUNITY FOR OLDER WORKERS

WEDNESDAY, SEPTEMBER 3, 2003

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, DC.

The committee met, pursuant to notice, at 2:36 p.m., in room SD–628, Dirksen Senate Office Building, Hon. Larry Craig (chairman of the committee) presiding.

Present: Senator Craig.

OPENING STATEMENT OF SENATOR LARRY CRAIG, CHAIRMAN

The CHAIRMAN. Good afternoon everyone. Welcome to the U.S. Senate's Special Committee on Aging's Forum on Older Workers. We have attempted this format for the second time today to bring experts together moderated by another expert to talk about issues and to build a record for the Congress that we think are critical issues to older Americans. Certainly overcoming obstacles and crafting opportunities for older Americans as it relates to their ability to stay in a workforce and be a part of a workforce is critically important.

Today's forum will be moderated by Barbara Bovbjerg of the General Accounting Office. Barbara, we thank you and I will turn this over to you in just a moment.

It is so important and appropriate for us to expand our discussion as it relates to America's workforce, as we have just come out of the Labor Day holiday where we honor America's workforce, and to talk about the role older Americans can play in that workforce.

As many of you know, unemployment in the United States has risen considerably over the past 3 years and has leveled off at around 6 percent. Of course, this unemployment is a cyclical response to an economic turndown that began in 2000 and had its seeds, some would argue, back to the technology stock bubble of the mid–1990's.

Fortunately, tax relief policies undertaken over the past 3 years have finally begun to bear fruit. If you look at inventories today and all of that, there clearly is significant growth in the economy. If you look at the stock market as an indicator, it has jumped almost 2,000 points in a half a year.

At the same time, when we talk about the dynamics of returning to full employment in the economy, there remains out there, an argument of concern for so many of us. In seven short years the U.S. Bureau of Labor Statistics projects a shortfall of 10 million workers in the United States. Prior to the recession I had seen figures that would have suggested that by the year 2010, if we had sustained the level of full employment we saw during the last half of the 1990's, that we would be at a nearly 20 percent deficit in the workforce.

Americans aged 65 and older are expected to increase 26 percent from 2005 to 2015. The number of Americans aged 40 to 54 will shrink by 5 percent. Our aging population makes it essential that we find ways to harness the skills, the talents, and the experience of older Americans, what they have to offer to their communities, and what they have to offer to this nation.

In order to prepare for the future it is important that lawmakers understand what is happening now with the older workforce and learn what the experts say about necessary changes as we move into a new era of work shortage.

Other hearings we have held before this committee talk about the dynamics and the character of our culture in this country versus that of other countries. While we have been a country that has allowed significant in-migration that can help offset a workforce problem, what that in-migration oftentimes does not offset is the skill or the talent that is critically necessary. Sometimes those who come must train. Those who come must develop a level of expertise or education that is, in many instances, held by and offered up by older Americans who have already been in the workforce and have that talent.

In order to prepare for the future I think it is important for lawmakers to understand, as I have said, "What is happening and what we ought to do about it." That is why we have assembled this panel of experts today and I look forward to their testimony.

I am going to be able to stay around for a few moments and listen to some of the testimony. With that consideration, I would like to introduce to you today and to the forum, Barbara Bovbjerg. Ms. Bovbjerg is the Director for Education Workforce and Income Security at the U.S. General Accounting Office.

Her record of achievement at the GAO, I think, is very impressive. I think both by her comments and her expertise with the experts today you will readily agree that she is the right person to moderate this forum.

So Barbara, I will turn it over to you and again thank all of you for attending today. I hope these kinds of forums are valuable for the audience as we work to build a record for the greater Senate to use. Thank you. I will turn it over to you.

STATEMENT OF BARBARA BOVBJERG, U.S. GENERAL ACCOUNTING OFFICE, WASHINGTON, DC

Ms. BOVBJERG. Welcome back to work everyone. An interesting week for some of us. Some of you had to travel a long way to get here this week when everybody is going back to school and going back to work. Some of us are fighting traffic that we had gotten used to not seeing.

I am very pleased to be here and I thank Chairman Craig and the Committee on Aging for sponsoring this forum and calling attention to this important issue.

GAO has, for this committee and for their colleagues in the House, done several studies of older workers and some of the issues that come about in thinking about the future of our labor force. There is a lot of room in this field so we are really pleased that a lot of people are thinking about these issues. I appreciate your all being here.

As Senator Craig said, the population that is 55 or older is poised to grow dramatically. It is about 21 percent of the population today. It will be 29 percent in 2019. At the same time, however, labor force growth will slow from about 1.1 percent to .7 percent annually. This is a huge reduction.

Slower growth in the labor force and the resulting shortage of skilled workers has serious implications for the national economy—and for our retirement systems, by the way, which is something that I know that the Aging Committee has called to everyone's attention.

We need to provide incentives for American workers to delay full retirement and incentives for American employers to let them.

I am looking forward to what everyone has to say here today and, as I understand the format, each person will be speaking for about 10 minutes. But we are forgiving here.

Once each panelist has an opportunity to speak, we will take questions. I know that you have little cards to write your questions on. I hope you will pass them to Scott Nystrom, and we will go from there. If you guys are not very forthcoming with questions, I am sure I will have some.

Let me go ahead and introduce each panelist and then I will just turn it to them—we will start down at the furthest end.

Debra Cohen is the Vice President of Knowledge Development at the Society for Human Resource Management. I know that she is coming here today to speak about a survey of human resource professionals that she has done. I think you will find it quite interesting, and I encourage you to read her paper as well.

Craig Spiezle is the CEO of AgeLight Consultancy Group in Clyde Hill, WA, which I understand is in Seattle. He will be talking about technology and older workers.

Leora Friedberg is a Professor in the Department of Economics at the University of Virginia. She will be here to talk about the disincentive to labor participation that the earnings limit in Social Security creates.

Last, but not least, from Idaho, Melinda Adams is the State Older Worker Coordinator with the Idaho Commission on Aging. I think she probably, the most among us, is right there in the trenches with this issue. So we will be very interested in what she has to say.

With that let me turn over to Dr. Cohen.

STATEMENT OF DEBRA J. COHEN, Ph.D., SPHR, VICE PRESIDENT OF KNOWLEDGE DEVELOPMENT, SOCIETY FOR HUMAN RESOURCE MANAGEMENT, ALEXANDRIA, VA

Ms. COHEN. Thank you. Good afternoon, Chairman Craig and other members from the Senate Special Committee on Aging that may also be here.

My name is Deb Cohen, as Barbara said, and I am the Vice President for Knowledge Development at the Society for Human Resource Management. Thank you very much for the opportunity to speak here today.

Let me start by just telling you little bit about the Society for Human Resource Management, SHRM. We are the largest association devoted to human resource management, representing more than 175,000 human resource professionals. Our mission is to serve the needs of human resource professionals by providing the most essential and comprehensive resources available.

As an influential voice, the Society's mission is also to advance the human resource profession to ensure that human resources is recognized as an essential partner and contributor in developing and executing organizational strategy.

The Society was founded in 1948 and currently has more than 500 affiliated chapters within the United States and members in more than 120 countries.

Related to our mission to serve the professional and to advance the human resource profession, SHRM conducts research on important workforce issues on an ongoing basis. I would like to report today about one survey in particular, our older worker survey, which we recently completed with two partners, the Committee for Economic Development and the National Older Worker Career Center.

In addition, I will also mention research from two additional studies, our 2002 workplace demographic trends survey, as well as the 2002 SHRM/USATODAY.com job satisfaction poll, both of which have implications for a discussion about older workers.

First, let me start by talking a little bit about the context here. Individuals who are age 40 and above are protected by Federal legislation in the Age Discrimination in Employment Act. From a legal perspective, this means that as workers age, they should be able to get, retain, and advance in jobs.

As a practical matter, though, organizations are still in need of dealing with perceptions related to older workers and understanding any stereotypes that might exist.

What then is the age at which someone is considered to be an older worker? That was the first question that we had. Does it coincide with what Federal law states?

In the chart on the screen, what you can see is that really the data is all over the map. The largest percentage of respondents, 28 percent, indicated that they think workers begin considering employees between the ages of 55 and 59 as older workers, followed by workers between the ages of 60 and 64, which was at 25 percent, and workers between the ages of 50 and 54 at 23 percent.

Just 12 percent on either end reported that workers considered to be between 40 and 49 to be older and those above 70.

Let me just stop for a moment and tell you a little bit about the methodology to provide you with some context here.

The survey program at the Society, in conjunction with the two partners, developed the survey instrument. We worked back and forth and also used human resource professionals as experts to determine are these the right questions we should be asking.

We then pulled a random sample of our membership. Our membership at the time was about 170,000. We pulled a sample of 2,500. Of that we got about a 20 percent response rate. So we feel pretty confident in the results. We actually had responses from 428 human resource professionals.

So the context here is that we are asking H.R. professionals what they thought about older workers relative to employment, as well as what they thought employees in their organization thought about hiring older workers. So that is the context for this.

So what this data indicates, in terms of the age people are considered to be older workers, is that human resource professionals believe that workers have perceptions regarding older workers that vary widely and are not necessarily limited to what Federal legislation protects, and spans a relatively long period of time in terms of a work life.

Next, I would like to talk a little bit about the advantages and disadvantages of hiring older workers. In two separate questions, H.R. professionals were asked their opinion about the advantages and disadvantages of hiring folks as compared to other workers. Respondents were then provided with a list of 13 advantages and 10 disadvantages and were asked to check all that applied.

In this chart, and the chart that I will show in a moment, clearly indicate that opinions about factors that were considered advantages were far stronger than opinions about factors that were considered to be disadvantages. You can see just by the space alone.

But in terms of some of the issues, organizations really might wish to capitalize on the factors that are seen as advantages and address the factors that are seen as disadvantages. For example, in the previous slide, the top three factors identified as advantages provide some potential suggestions for H.R. professionals and their organizations. Creating and allowing flexible schedules, for example, has become a necessity in today's work environment for all workers, certainly. By in this particular case we are seeing this time and time again with older workers.

So if older workers are indeed more willing to work different schedules, then organizations that work with this flexibility may be able to have a positive impact on schedules overall for the entire workforce.

Using older workers as mentors, for example, may also be a way for organizations to retain and develop institutional memory and knowledge, while at the same time capitalizing on the invaluable experience of older workers.

Programs that capture and use these advantages will need to be modeled in organizations but the concept is a good starting point. Clearly every organization is different and programs would need to be modeled to each organization.

In terms of the identified disadvantages, the only factor to receive a majority percentage response referred to the concept that older workers do not keep up with technology. I know that Craig will be talking about that in just a few moments.

This fact clearly may vary from organization to organization, but it is an issue that is easily dealt with, regardless of how strong of an issue it might be in an organization. Providing training and education, for example, for all workers, including older workers, and to communicate to all employees the organization expectation for keeping up with technology as it relates certainly to one's job are part of an employee's review performance or could be.

So every organization may have its own unique issues and this survey clearly, however, indicates that many of the factors that are identified in organizations as relating to the advantages and to the disadvantages can be addressed through regular employment interventions and activities. As human resource professionals, these folks certainly are in the best position to do that.

We then looked at whether or not there was any hesitancy of organizations and of hiring managers to hire older workers. Although we did not actually survey hiring managers, we felt that human resource professionals who worked with hiring managers on a day-to-day basis would be in an excellent position to know what they were thinking and what their perceptions were.

So H.R. professionals were asked their opinions about how hesitant they thought their organization is to hire older workers and how hesitant hiring managers are in hiring older workers. So one of the questions essentially reflected organizational culture and then the second question reflected individual perceptions, if you will.

Overall, the results show that 48 percent of H.R. professionals believe that organizations are not at all hesitant, while they think only 38 percent of hiring managers are not at all hesitant. So this indicates that the culture of an organization may be a bit more open than individual hiring managers, in terms of not at all being hesitant about hiring older workers. So although this question reflects the H.R. professionals' perspectives, again we think this is a pretty good insight into what hiring managers might be thinking.

If you will notice in the bar on the far right, the opinions flip when you look simply at a little bit of hesitancy on the five point scale. Overall, the result if you look at means, it is 3.13 for the organization versus 3.24 for individuals. Essentially what this shows is that there may be room here for organizations to educate their hiring managers with regard to their openness to hiring older workers. It may well be that the organization's culture is more open to them than individuals are. So that is one thing to keep in mind.

Next, we wanted to look at the impact of the aging workforce. SHRM has certainly been interested in the impact that an aging workforce will have on H.R. policies and practices, as well as other demographic factors. The reason for this interest, of course, has been many fold. As Senator Craig stated in his opening remarks, we know from statistics tracked and published by the Bureau of Labor Statistics as well as other agencies, that the workforce is aging and that there is going to be a shortage of workers in the next 10 years and beyond, particularly in certain skilled jobs.

So our concern then has been that while we know that there is an aging population that is going to spark greater retirement, and fewer births will result in less replenishment of retired workers, that organizations are perhaps more concerned with current employment issues and have less focus on the implications of demographic changes.

A focus on current issues is certainly not a bad thing but a focus on that to the exclusion of focusing on changes that will occur and will have an impact is potentially problematic.

So in our 2002 workplace demographic trends survey, we asked H.R. professionals in their opinion about to what extent the aging population impacted their workplace in the past year, what they thought over the next 2 years, and what they thought for the next 5 years.

Chart 5 shows that while H.R. professionals believe there will be a greater impact from the aging population than in the year preceding the survey, the reported impact is still not particularly great. So these results also indicate that H.R. professionals and their organizations are probably not likely to address these issues of an aging population to any great extent in the near future. Again, this may cause some problems.

The data then from the older workers survey that we just completed, just a little bit more than a year later, has a similar approach and a similar theme to it. That is the majority of H.R. professionals indicated that they did not believe that changes in the workforce were forcing changes in recruiting, in retention, and in management policies and practices. Only 4 percent indicated that changes were occurring to a very large extent, about one-quarter said to some extent. So this may indicate a shortsightedness on the part of organizations and perhaps H.R. professionals with regard to addressing the impact of an aging population.

For example, if recruitment or retention of management practices are adjusted to account for the aging workforce in one's organization by capitalizing on the advantages and the disadvantages that we just showed you, it may well be that the organization can be better prepared to deal with labor shortages and better able to accommodate an older workforce.

Next, because recruitment and retention is such an important issue, we also looked at that as well as reasons for folks wanting to work, as opposed to remain retired. Although it appears that not many H.R. professionals or their organizations have made changes in their recruitment and retention and management practices, we felt it would be important to know how they actually do recruit and attract older workers. So we asked what methods were currently being used directly to target older workers in the recruitment efforts.

A variety of methods were, in fact, used. But the more telling result is that long bar on the bottom which says that 59 percent do not actively recruit older workers. One would expect that this number is going to decrease over time as it becomes increasingly clear that one way to deal with the pending labor shortage is to tap into existing skills and capabilities in the workforce or in the retired workforce.

In addition, the array of recruiting methods which is mentioned here in this particular chart may also provide some insight as to how organizations might search for older workers in the future and to retain or to look for that talent.

While it is certainly important to know why older workers want to work or return to work, from an H.R. perspective it is important to know what H.R. professionals think as well. This study only looked at H.R. professionals. One recommendation I have is to do a study in the future that looks at older worker perceptions in conjunction with H.R. professional perceptions, because this study in fact shows that when it comes to why people have returned to work, H.R. professionals believe that it is primarily because of, or at least at the top of the list, enjoyment, occupying their time, money was second, social interaction was third, benefits fourth, and so on. For example, challenge only came in at 30 percent as reported by H.R. professionals.

The reason we need to know what older workers are thinking in connection with H.R. professionals is because if, let us say for example benefits were at the top of the list or challenge were at the top of the list, but H.R. professionals are thinking the opposite essentially, they are the ones that are working within their organizations to design jobs, to price jobs. If there is a disconnect between what H.R. professionals or organizations think older workers want versus what older workers themselves want, then the jobs will not be designed in a way either for the job content or the pay to be in conjunction with one another.

So this chart shows a little bit of that information.

One of things we also need to look at is that although H.R. professionals cited many advantages to hiring older workers and we know that there is this pending labor shortage, it is important to also understand what organizations are doing to retain these older workers. Retention is important for all workers. We know that when organizations experience turnover, it is not necessarily always all bad. But we do know that turnover is expensive and we do know that turnover can, more often than not, be dysfunctional than functional.

So that being the case, most organizations tend to make a conscious attempt to consider retention in their mix of human resource practices. Our survey, however, revealed—and this is in chart nine—that 65 percent of H.R. professionals report that they do nothing specific to retain older workers. Relying on traditional retention methods may or may not have a positive impact on older workers. There were, however, a few strategies that were reported, such as flexible schedules, such as training, reduction of work hours, and so forth in an attempt to specifically retain older workers.

So what are organizations and H.R. professionals doing to prepare for the labor shortage? One theme that has been fairly constant in the past 5 to 10 years is the prediction that as the baby boom generation retires there will be a shortage of workers to replace them. As a result, it is important to understand the strategies that organizations and H.R. professionals are using to prepare for this shortage.

About one-third of the respondents in our survey, in fact, said that they were doing nothing in preparation. However, the other two-thirds reported using a variety of strategies, though most were used by less than 20 percent. That is what is shown in chart 10.

Increased training was cited by 36 percent, succession plans or replacement charting were cited by 29 percent. This chart shows the array of strategies currently being undertaken by respondents. In the future, though, one would hope that these strategies would be used more often by organizations.

The final point that I want to make before I turn things over to Craig, is to talk a little bit about older workers and job satisfaction. Job satisfaction is an issue that is important to both organizations and to employees who work in organizations. Historically, there has been a correlation between satisfaction and turnover, such that if individuals were dissatisfied they were more likely to leave or consider leaving an organization. Satisfaction is also believed to be related to other workplace behaviors.

As a result, most organizations tend to be interested in understanding what causes satisfaction and how to maintain satisfaction among their employees. Many years of research have shown that there is a wide variety of facets of job satisfaction. As a result, SHRM has been very interested in studying and understanding satisfaction.

In fact, in late 2002, we conducted a job satisfaction survey in conjunction with USATODAY.com. For this particular poll, what was interesting is not only did we do a random sample of our professional members, but we also put a similar survey on the USATODAY.com website which attracts employees or potential employees. It was a random pop-up. So we had a sample of employees and H.R. professionals to compare to one another.

The perceptions of H.R. professionals and employees varied in their assessment of how important certain aspects of job satisfaction are to overall employee satisfaction. H.R. professionals perceived that communication between employees and management as the No. 1 aspect that employees deemed as very important to their overall satisfaction. Employees, on the other hand, viewed job security as the top aspect that was very important when assessing their job satisfaction.

We then went ahead and did an analysis by employee age and employee gender to determine, in fact, if there were any differences. In fact, there were some notable differences in terms of what employees considered to be very important. So what we did was we took the employee side of the survey and we analyzed it by age and we broke it down into these three categories. Employees 35 and under rated communication between employees and management as the facet of satisfaction of greatest importance contributing to overall satisfaction. Job security, however, was rated as the top aspect by employees 36 to 55 age range, while benefits was most valued by employees 56 and above.

So if you take a look at job satisfaction, just in terms of the first factor, it was very different when you do a breakdown by age. So the application is that organizations then really need to consider the needs of different groups of employees if they are to retain and maintain their satisfaction. You can look at the other factors, as well, and see some wide differences there.

Treating workers generically may not produce the results that organizations need or want in terms of retaining and attracting and motivating their workforce.

So the conclusion here is pretty straightforward. We can talk about examples of successful older workers and successful plans by organizations. In fact, in addition to a copy of the survey today, I also brought with me two articles from Human Resource Magazine, one that was just recently published last month and one from a year ago, both focusing on older workers and highlighting examples of organizations and employees who are older workers and successful stories of that.

So there are lots of examples that abound, but it is very clear from the research that we have done, both in the older workers survey as well as other surveys that we have done, that human resource professionals and organizations are probably not paying as close attention to this issue as they need to in terms of understanding the issues to attract, retain and motivate an older workforce.

Thank you.

[The prepared statement of Ms. Cohen follows:]

SOCIETY FOR
HUMAN
RESOURCE
MANAGEMENT

Older Workers

Statement of

Debra J. Cohen, Ph.D., SPHR
Vice President, Knowledge Development
Society for Human Resource Management

Before the

Senate Special Committee on Aging
Forum on the Older Workforce
September 3, 2003

Good afternoon, Chairman Craig, Ranking Member Breaux, and members of the Senate Special Committee on Aging. My name is Deb Cohen. I am the Vice President of Knowledge Development at the Society for Human Resource Management. Thank you for the opportunity to speak before you today.

The Society for Human Resource Management (SHRM) is the world's largest association devoted to human resource management. Representing more than 175,000 individual members, the Society's mission is to serve the needs of HR professionals by providing the most essential and comprehensive resources available. As an influential voice, the Society's mission is also to advance the human resource profession to ensure that HR is recognized as an essential partner in developing and executing organizational strategy. Founded in 1948, SHRM currently has more than 500 affiliated chapters within the United States and members in more than 120 countries.

Related to our mission to serve the professional and advance the profession, SHRM conducts research on important workforce issues on a regular basis. I would like to report today about our *Older Workers Survey* which we recently completed with two partners, the Committee for Economic Development (CED) and the national Older Worker Career Center (NOWCC). In addition, I will also mention research from our *2002 Workplace Demographic Trends Survey* as well as the *2002 SHRM/USATODAY.com Job Satisfaction Poll* which also has implications for a discussion about older workers.

Introduction

Individuals who are age 40 and above are protected by federal legislation in the Age Discrimination in Employment Act. From a legal perspective, this means that as workers age, they should be able to get, retain and advance in jobs. As a practical matter though, organizations are still in need of dealing with perceptions surrounding older workers and understanding any stereotypes that may exist. What then is the age at which someone is considered an older worker? Does it coincide with what federal law states? The chart below depicts the responses of HR professionals to the question: "at what age do you think most workers begin considering an employee to be an older worker?"

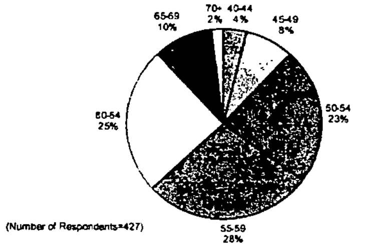
Methodology

The SHRM Survey Program, with assistance from NOWCC and CED, developed the survey instrument. An internal committee of SHRM staff with HR expertise and an external committee of volunteer leaders and experts in the HR field also provided valuable insight and recommendations for the instruments.

A sample of HR professionals was randomly selected from SHRM's membership database, which consists of more than 170,000 members. Only members who had not recently participated (approximately the last six months) in a SHRM survey or poll were included in the sampling frame. Members who are students, consultants, academics, located internationally and who have no e-mail address on file were excluded from the sampling frame. In November 2002, 2,500 randomly selected SHRM members received an e-mail invitation containing a link that directed them to the online survey. Of these, 2,143 e-mails were successfully delivered to respondents, and 428 HR professionals responded, yielding a response rate of 20%. The survey was fielded for a period of three weeks and three e-mail reminders were sent to sample members in an effort to increase response rates.

The largest percentage of respondents (28%) indicated they think workers begin considering employees between the ages of 55 and 59 as older workers, followed by workers between the ages of 60 and 64 (25%) and workers between the ages of 50 and 54 (23%). Just 12% report that employees consider workers who are between 40 and 49 to be older workers and another 12% who consider workers who are 65 and above to be older workers. This data indicates that HR professionals believe that workers have perceptions regarding older workers that vary widely, are not necessarily limited to what federal legislation protects and spans a relatively long period of time.

Chart 1: Age Employees Considered to be Older Workers



Source: SHRM/NOWCC/CED Older Workers Survey

Advantages and Disadvantages of Hiring Older Workers

In two separate questions, HR professionals were asked their opinion about the advantages and disadvantages of hiring older workers as compared to other workers. Respondents were provided with a list of 10 disadvantages and 13 advantages and asked to check all that applied. Charts 2 and 3 clearly indicate that opinions about factors that were considered advantages were far stronger than factors considered as disadvantages.

Chart 2: Advantages of Hiring Older Workers

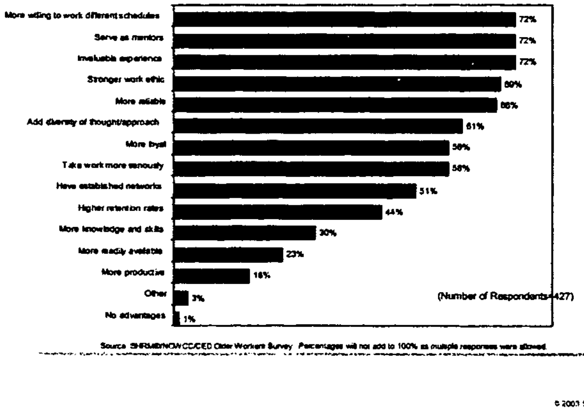
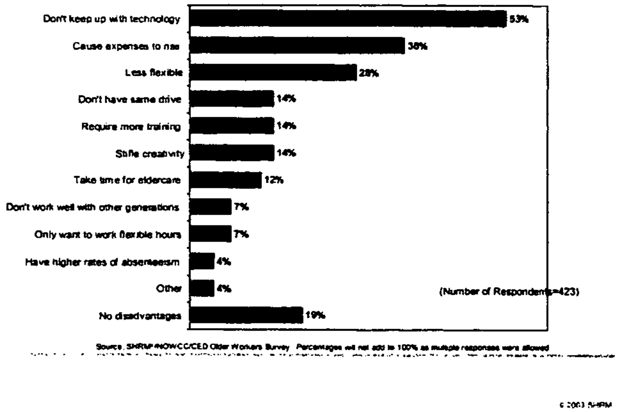


Chart 3: Disadvantages of Hiring Older Workers



Organizations may wish to capitalize on the factors that are seen as advantages and address the factors that are seen as disadvantages. For example, the top three factors identified as advantages provide some potential suggestions for HR professionals and their organizations. Creating and allowing flexible schedules has become a necessity in today's work environment. If older workers are indeed more willing to work different schedules, then organizations that work with this flexibility may be able to have a positive impact on schedules overall. Using older workers as mentors may also be a way for organizations to retain and develop institutional memory and knowledge while at the same time, capitalizing on the invaluable experience that these workers bring to their jobs and organizations. Programs that capture and use these advantages will need to be molded to an organization, but the concept is a good starting point.

In terms of the identified disadvantages, the only factor to receive a majority percentage response referred to the concept that older workers do not keep up with technology. This fact may vary from organization to organization, but is an issue easily dealt with by providing training and education for all workers (including older workers) and to communicate to all employees in the organization that expectations for keeping up with technology (as it relates to one's job) are part of an employee's reviewed performance.

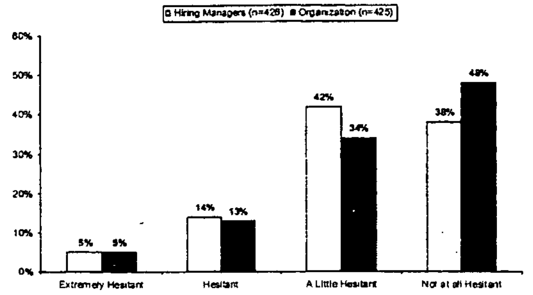
Every organization may have its own unique issues. This survey, however, clearly indicates that many of the factors identified in organizations as relating to the advantages and disadvantages can be addressed through regular employment interventions and activities.

Hesitancy to Hire Older Workers

HR professionals were asked their opinion about how hesitant they thought their organization is to hire older workers and how hesitant hiring managers are in hiring older workers. One question reflects what the culture of the organization might be relative to hiring older workers and the other question reflects how the individuals who are typically the ones tasked with interviewing and actually deciding which candidates to select, might think. Overall, the results show that 48% of HR professionals believe that their organizations are not at all hesitant while they think only 38% of hiring managers is not at all hesitant. This indicates that the culture of an organization may be more open (not at all hesitant) than individual hiring managers. Although this question reflects what HR professionals believe hiring managers are thinking, they are in a good position to understand how hiring managers think and react to candidates.

The opinions flip when looking at a "little hesitancy" on the five-point scale. The overall result is that hiring managers are reported to be a little more hesitant (mean 3.13) compared to organizations (3.24). Thus, there may be room here for organizations to convey to hiring managers the willingness and importance of hiring older workers. It may be that individual stereotypes are influencing perceptions or at least HR professionals' opinions of manager perceptions relative to hiring older workers. Chart 4 shows the comparison.

Chart 4: Hesitance of Organizations and Hiring Managers to Hire Older Workers



Source: SHRM/NOW/CC/CED Older Workers Survey. Percentages may not add to 100% due to rounding error.
Respondents gave hiring managers a mean rating of 3.13 with a standard deviation of .85 on a scale where 1=extremely hesitant and 4=not at all hesitant.
Respondents gave their organizations a mean rating of 3.24 with a standard deviation of .87 on a scale where 1=extremely hesitant and 4=not at all hesitant.

Impact of the Aging Workforce

SHRM has been interested in the impact that an aging workforce will have on HR policies and practices. The reason for this interest has been manifold. We know from statistics tracked and published by the Bureau of Labor Statistics that the workforce is aging and that there is going to be a shortage of workers over the next 10 years – particularly in certain skilled jobs. Our concern has been that while we know an aging population will spark greater retirement and fewer births will result in less replenishment of retired workers, that organizations are more concerned with current employment issues and have less of a focus on the implications of demographic changes. A focus on current issues is not surprising, but a lack of focus on pending changes and issues would be of concern.

In the *2002 Workplace Demographic Trends Survey* we asked HR professionals their opinion about to what extent the aging population impacted their workplace in the past year, the next two years and over the next five years. Chart 5 shows that while HR professionals believe there will be a greater impact from the aging population than in the year preceding the survey, the reported impact is still not particularly great. These results also indicated that HR professionals and their organizations are probably not likely to address the issues of an aging population and the impact on the workforce in the near future due to their lack of immediate concern over the issue.

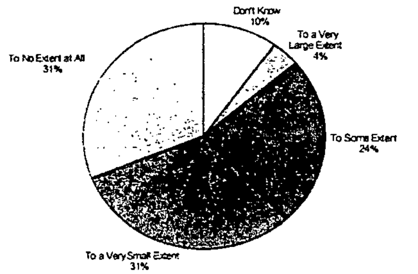
Chart 5: Extent to Which Aging Population Impacts Workplace

	Number of Respondents	No Impact At All	Little Impact	Some Impact	Great Impact	Very Great Impact
Past Year	445	33%	32%	29%	5%	1%
Next 2 Years	438	15%	30%	38%	16%	2%
Next 5 Years	441	6%	21%	38%	25%	11%

Source: SHRM 2003 Workplace Demographic Trends Survey

The data from the Older Workers survey (Chart 6) conducted a little more than a year later indicate a similar approach. That is, the majority of HR professionals indicated that they did not believe that changes in workforce age were forcing changes in recruiting, retention and management policy/practices. Only four percent indicated that changes were occurring to a very large extent and about one quarter "to some extent". This may indicate a short-sightedness with regard to addressing the impact of an aging population. For example, if recruitment or retention or management practices are adjusted to account for the aging workforce in ones organization, by capitalizing on the advantages or addressing the disadvantages noted earlier, an organization may be better prepared to deal with labor shortages and better able to accommodate an older workforce.

Chart 6: Workforce Age Forcing Changes in Recruiting, Retention and Management Policy/Practice



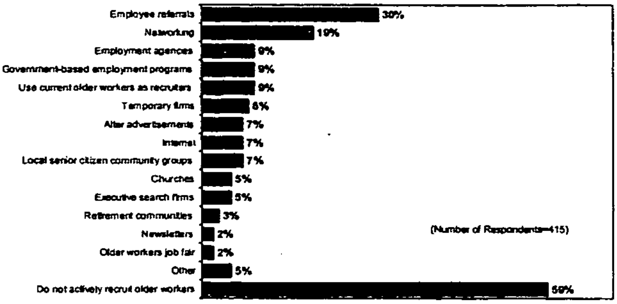
(Number of Respondents=425)

Source: SHRM/NOW/CC/CED Older Workers Survey
The 381 respondents who did not indicate don't know, indicated a mean extent rating of 3.00 with a standard deviation of .85 on a scale where 1=to a very large extent and 4=to no extent at all

Recruitment, Retention and Reasons for Working

Although it appears that not many HR professionals or their organizations have made changes in their recruiting, retention and management practices, we felt that it would be important to know how they actually do recruit and attract older workers. Thus, we asked what methods were used to directly target older workers in recruitment efforts. A variety of methods are indeed used to recruit older workers, but the more telling result was that 59% reported that they do not actively recruit older workers. One would expect this number to decrease over time as it becomes increasingly clear that one way to deal with the pending labor shortage is to tap into existing skills and capabilities in the workforce or in the retired workforce. In addition, the array of recruiting methods shown in Chart 7 may provide some insight as to how organizations might search for older talent as well as how older talent might make their qualifications and availability known.

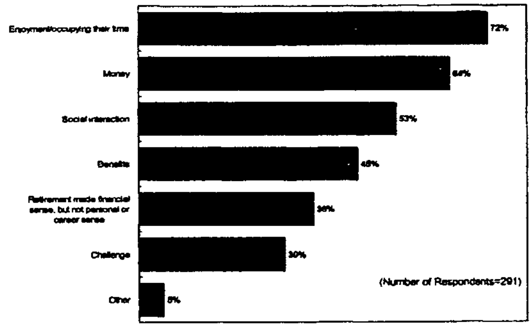
Chart 7: Recruiting Methods Used to Directly Target Older Workers



Source: SHRM/NOW/CC/CED Older Workers Survey. Percentages will not add to 100% as multiple responses were allowed.

While it is important to know why older workers want to work or return to work, from an HR perspective it is important to know why organizations and HR professionals think older workers want to return to work or have returned to work. It is this insight that will drive the types of jobs, benefits, and general approach to older workers that is used by organizations. It appears that HR perceptions of the reasons vary but the majority cites a combination of enjoyment and occupying their time, money and social interaction. The need or desire for benefits is also cited as important. Only 30%, however, indicate that the reason is for "challenge". It will be important to conduct research that investigates the opinions of older workers along with the perceptions of HR professionals to determine if there is a disconnect between their beliefs. For example, if challenge is cited by older workers as a more prominent issue than money, then organizations that recruit or design jobs with a philosophy that money is more important than challenge, may have difficulty in attracting and retaining older workers. Chart 8 presents the reasons why retirees have returned to work as a function of the beliefs of HR professionals.

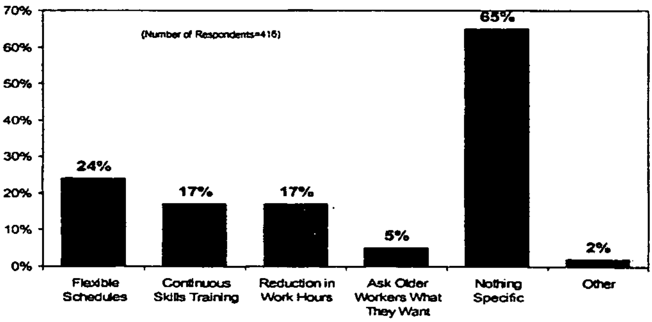
Chart 8: Reasons Retirees Have Returned to Work



Source: SHRM/NOWCC/CED Older Workers Survey. Percentages will not add to 100% as multiple responses were allowed.

Given that HR professionals cited many advantages to hiring older workers, and that there is a pending labor shortage, it is important to understand what organizations are doing to retain older workers. Retention among all employees is an important goal for most organizations. Although not all turnover is bad, it is generally known that turnover can be expensive and dysfunctional. As a result most organizations make a conscious attempt to consider retention in the mix of their HR practices. Our survey, however, revealed that 65% of HR professionals report that they do nothing specific to retain older workers. Relying on traditional retention methods may or may not have a positive impact on older workers. There were, however, a few strategies that were reported, such as flexible schedules, continuous training and reduction in work hours that have been used in an attempt to retain older workers. Chart 9 identifies these retention practices.

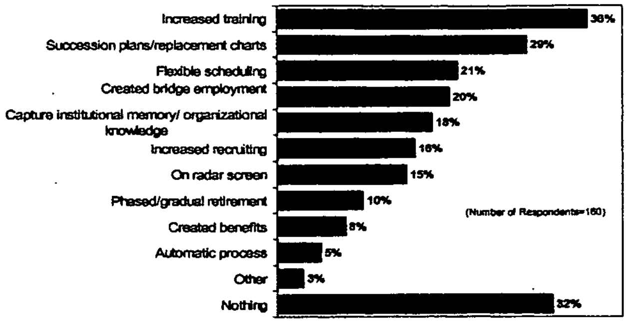
Chart 9: Retention Practices to Directly Target Older Workers



Preparing for Labor Shortage

One theme that has been fairly constant in the past 5 to 10 years is the prediction that as the Baby Boom generation retires, there will be a shortage of workers to replace them. As a result, it is important to understand the strategies that organizations and HR professionals are using to prepare for this shortage. About one-third of the respondents said that they were doing nothing in preparation. However, the other two-thirds reported using a variety of strategies, though most were used by less than 20%. Increased training was cited by 36% and succession plans or replacement charts were cited by 29%. Chart 10 shows the array of strategies currently being undertaken by the respondents.

Chart 10: How Organizations are Preparing for Possibility of a Shortage of Workers Due to the Retiring Baby Boom Generation



Source: SHRM/NOWCC/CED Older Workers Survey. Percentages will not add to 100% as multiple responses were allowed.

Older Workers and Job Satisfaction

Job satisfaction is an issue that is important to both organizations and the employees who work in organizations. Historically, there has been a correlation between satisfaction and turnover such that if individuals are dissatisfied, they are more likely to leave or consider leaving an organization. Satisfaction is also believed to be related to other workplace behaviors. As a result, most organizations tend to be interested in understanding the satisfaction levels of their employees. Many years of research have shown that there are a number of facets of satisfaction to which individuals are attuned. In late 2002, SHRM conducted a job satisfaction poll in conjunction with USATODAY.com. For this poll, we collected data from a random sample of HR professionals and from random employees/job seekers who visited the careers section of USATODAY.com.

The perceptions of HR professionals and employees varied in their assessment of how important certain aspects of satisfaction are to overall employee satisfaction. HR professionals perceived communication between employees and management as the number one aspect that employees deemed as "very important" to their overall job satisfaction. Employees on the other hand, viewed job security as the top aspect that was "very important" when assessing their job satisfaction. An analysis by employee age and gender though produced notable differences based on these variables in terms of what employees considered to be very important.

Employees 35 and under rated communication between employees and management as the facet of greatest importance, contributing to overall job satisfaction. Job security was rated as the top aspect by employees in the 36-55 age range, while benefits was most valued by employees 56 and above. A look at chart 11 shows that job satisfaction factors are very different for older workers than they are for the other two age categories analyzed by this study. The implication is that organizations must consider the needs of different groups of employees if they are to retain them and maintain their satisfaction levels. Treating workers generically may not produce the results that organizations need or want relative to attracting, retaining and motivating their workforce.

Chart 11: Job Satisfaction Factors by Age

Age	*1st*	*2nd*	*3rd*	*4th*	*5th*
35 and Under	Communication (66%)	Work/ Life Balance (66%)	Career Advancement (64%)	Job Security (59%)	Career Development (58%)
36-55	Job Security (71%)	Benefits (67%)	Work/Life Balance (62%)	Communication (61%)	Compensation/ Pay (61%)
56 +	Benefits (74%)	Job Security (56%)	Communication (56%)	Compensation/Pay (56%)	Recognition by Management (50%)

Source: SHRM®/USATODAY.com Job Satisfaction Poll

Conclusions

Examples exist to that show successful older workers and successful older worker plans by organizations. [Note: See the two articles submitted along with this testimony that have appeared in HR Magazine.] One point is clear from the surveys and data collected by SHRM. The issue is perhaps not getting as much attention as it should given the demographic changes that are in store for the workforce. Older workers will be a major part of the workforce in years to come. Programs and activities must be developed to address the ability to hire and retain these individuals as well as addressing the needs of these individuals in the workplace.

Ms. BOVBJERG. A little commercial, I am a little nervous about Linda getting to speak. So we are forgiving, but at close to 10 minutes as you can.

STATEMENT OF CRAIG SPIEZLE, CEO, AGELIGHT CONSULTANCY GROUP, CLYDE HILL, WA

Mr. SPIEZLE. Thank you. My name is Craig Spiezle. I am President of AgeLight, which is a life stage marketing and technology consulting group. I would like to thank Senator Craig and the Senate Special Committee on Aging for this opportunity to speak here today.

This afternoon, I am going to discuss the convergence of three revolutions facing the Nation. First and foremost is how the United States has become a workforce of information workers. Second are the effects and implications of the aging workforce. Third is the reliance and the role of technology equipping mature workers to lead productive, fulfilling, and rewarding careers.

Since I last testified, the Nation has made significant inroads in providing Internet access to millions of older Americans. Our nation is an information society. The focus of what used to be the digital divide has now shifted to affordable wireless connectivity. Based on data from the U.S. Bureau of Labor Statistics and the National Telecommunication Information Administration, upwards of 70 percent or 93 million workers require the use of computing and data input devices. These devices are not only PC's, but PDAs and portable tracking and data input devices.

We have moved from a Nation of service workers to what is called information workers. Information workers are you and I, individuals who are participants in the flow of data and information. Information workers are prevalent in nearly every business sector and industry. Their occupations range from architects and call center operators to rental car agents and many factory workers, and even the meter maids here in D.C.

Workplace computing has been expanded to include a wide range of devices, applications, and occupations. Fueling this is the growth of wireless connectivity and more powerful mobile devices, making anytime and anyplace computing a reality. Usage is no longer confined to the physical office but in delivery vehicles, city streets, and even the corner Starbucks.

But what do all of these occupations have in common? They all require the worker to have the ability to read displays and to have the dexterity to type and control input devices to access and enter information.

The profile of the U.S. labor force is in the path of an age wave and in the midst of the most dramatic change ever recorded. This sea change is the result of the sheer magnitude of the numbers of aging baby boomers and reduced birthrates of echo boomers and GenXers. Fueling this change is the record number of workers who are now continuing to work past their traditional retirement age.

A study from AARP reports that 69 percent of employees over the age of 45 plan to continue to work past the age of 65. The economic recession that began in 2001 and its impact on retirement savings and 401(k)s is causing many to re-evaluate their plans and lifestyles to now accommodate employment. With longevity and the economic necessity, many will be working well through their 70's and their 80's.

Within the next 5 to 10 years, over 78 million baby boomers are scheduled to retire with only 44 million GenXers joining the workforce. According to the Bureau of Labor Statistics, workers between the ages of 25 and 54 will only increase 5 percent between 2001 and 2010. But at the same time, workers over the age of 55 will increase 46.6 percent.

As more workers reach the retirement age, the adverse impact on their retirements will have a significant impact on many industries and occupations. Those most affected include public administration, education, and health care. According to the GAO, more than 50 percent of all Federal workers will be eligible for retirement by the year 2005. According to research by the Hyde Group, 70 to 80 percent of all airline pilots will retire within the next 5 years. Left unaddressed, these workforce shortages threaten to stifle economic growth while increasing wages in high demand occupations.

Technology skills are playing an ever-increasing role in one's employability. As boomers work into their later years, they will need to embrace new skills and technologies to remain employable. But to be employable, one must not only have the skills, but the devices must be usable, adaptable, and customizable to compensate for the natural physiological changes of aging.

As our population lives and works longer, the likelihood of developing age-related vision, hearing, and dexterity impairments increase as we approach the age of 40. These changes directly affect the aging worker's ability to use computing devices. For some, such as the need of bifocals, this may be an inconvenience. While for others, it may become a disability.

According to a 2001 report from the National Organization of Disability, people aged 45 to 54 have an 11.5 percent chance of developing a disability. Yet this figure nearly doubles to 22 percent for those ages 55 to 64.

As reported by SHRM, the largest obstacles cited to hiring older workers is that they do not keep up with current technology. The respondents overwhelmingly stated that the best way for an employer to prepare for the approaching shortage of workers is to invest in an increase in technical training for the pre-retirees. Clearly ongoing technology training needs to be mandatory.

Technology has proven to be a counterbalance for people with age-related limitations, and the use of implementation of assistable and accessible technologies provides a significant benefit. To be accessible, technology must be flexible enough to meet the needs and preferences of users with various needs and abilities. Often simple customization of the device interface can provide workers the ability to adapt their computing environment to their human factor requirements. Such personalization can benefit all users by offering increased usability, productivity, efficiency, and comfort.

These features can accommodate a range of vision, hearing, and mobility needs. Examples include the ability for a user to increase fonts, sizes, color, et cetera. Accessibility features built into standard operating systems today include keyboard filters that can help compensate for erratic motion, slow response time, and other conditions. One such example is something called Microsoft StickyKeys which allows a user to hold and enter key combinations sequentially without having to hold one key down while depressing another. Users can also adjust mouse properties such as button configuration, pointer and cursor size, and how quickly the cursor responds to the movements of the mouse.

While these features are included in the majority PC sold today, the overwhelming majority of employees and employers are unaware of these options or how to change them. Additionally, few of these options and alternatives exist today in many PDAs, cell phones, and portable devices whose use is increasing daily.

For computer users with more severe disabilities, there are over 100 third party technology vendors who create products specifically to accommodate an individual's disability. Such products include speech recognition software, alternative keyboards, braille embossers, and screen readers.

One example that I think is excellent, is something called a PACmate PDA developed by Freedom Scientific for blind users. The key to this device is it does not rely on proprietary applications and allows the user to share information directly with other information workers. What is unique is prior to this, it was not compatible with other devices in the workplace.

In conclusion, the interaction of technology has rapidly become woven into our lives. I believe unless business and industry are proactive, they will miss the opportunity to tap the considerable value of the aging workers, resulting in a decline in workplace productivity and a negative impact on economic growth.

To be successful, we need to focus in five major areas. One, the workplace environment. Two, the employee. Three, the devices and tools required. Four, training programs. Five, the human factors and universal design of devices, websites, and user interfaces.

The workplace environment includes ergonomics, personalized work stations, as well as lighting and ventilation. The employee needs to also participate in training and education of these new technologies, as well as practice healthy computing exercises that have proven to reduce muscle and eyestrain. Font size, color and such need to be optimized along with the use of ergonomic keyboards and pointing devices offering an enhanced control and precision.

Companies need to consider replacing CRT monitors with LCD displays which dramatically reduce eye fatigue. Employers need to consider a comprehensive strategy that includes training policies, retention, and recruitment programs. Doing so will slow the exodus from the workforce and the knowledge and talent drain while maximizing older worker's productivity.

Planning for this inevitable population shift and recognizing the importance of the aging workforce will help employers achieve maximum productivity and commerce.

Unfortunately, the technology industry has not been committed enough to these human factors and universal design needs of this increasing proportion of our population. Hardware, software applications, websites, and user interfaces must both be functionally usable but are often designed for a target audience in their 20's. Focusing on these requirements will enhance usability and improve computing and the online experience for users of all ages.

The recommendations I have made today are not expensive but they do take commitment and participation by all stakeholders including employers, employees, as well as the technology vendors. Technology can extend, enhance, and enrich employability for all Americans. But only if businesses and industry adopt a generational perspective so that we understand and integrate mature Americans' needs into tomorrow's technologies. Doing so will ensure the ability to continue their rich tradition of being positive role models will contributing to our Nation's economy.

Mr. Chairman, again, thank you for this opportunity to share my views with the committee. Thank you.

[The prepared statement of Mr. Spiezle follows:]

The Convergence of the Aging Workforce and Technology
Testimony by Craig D. Spiezle to the US Senate Special Committee on Aging
September 3, 2003

My name is Craig Spiezle, President of AgeLight, a life stage marketing and technology consulting group. I would like to thank Senator Craig, Senator Breaux and other members of the Senate Special Committee on Aging for the opportunity to speak today.

This afternoon I will discuss the convergence of three revolutions facing the nation. First and foremost is how the United States has become a workforce of "Information Workers". Second are the effects and implications of America's aging workforce. And third is the reliance and role of technology equipping mature workers to lead productive, fulfilling and rewarding careers.

Since I last testified, the nation has made significant inroads in providing internet access to millions of Older Americans. Our Nation is an "information society". The focus of what used to be the digital divide, has now shifted to affordable wireless connectivity. Based on the data from the US Bureau of Labor Statistics and the National Telecommunication Information Administration, upwards of 70%, or 93 million workers, require the use of computing and data input devices. These devices not only include the PC, but PDA and portable tracking and data input devices. [1]

Information Workers
We have moved from a Nation of service workers to "information workers". Information workers are you and I, individuals who are active participants in the flow of business information and data. Information workers are prevalent in nearly every business sector and industry. Their occupations range from architects and call center operators to rental car agents, many factory workers and even the meter maids here in DC!

Workplace computing has expanded to include a variety of devices, applications and occupations. Fueling this is the growth of wireless connectivity and more powerful mobile devices, making anytime and place computing a reality. Usage is no longer confined to a physical office, but in delivery vehicles, city streets and the corner Starbucks. But what do all of these occupations have in common? They all require the worker to have the ability to read displays and to have the dexterity to type, and control input devices to access and enter information.

[1] A Nation Online, U.S. Department of Commerce, ESA/NTIA, February 2002, pp. 59-61

Labor Force Changes
The profile of the US labor force is in the path of an age wave and in the midst of the most dramatic change ever recorded. This sea change is a result of the sheer magnitude of the numbers of aging baby boomers and the reduced birthrates of echo boomers and GenXers. Fueling this change is the record number of workers who are now continuing to work past the traditional retirement age. AARP reports that 69 percent of employees over the age of 45, plan to continue working past 65.[2] The economic recession that began in 2001 and its' impact on retirement savings and 401Ks, is causing many to re-evaluate their plans and lifestyles to accommodate employment. With longevity and the economic necessity, many will be working through their 70's and into their 80's.

Within the next five to 10 years, over 76 million baby boomers are scheduled to retire, with only 44 million GenX'ers joining the workforce. According to the Bureau of Labor Statistics, workers between the ages of 25 and 54 will only increase 5% between 2001-2010, yet at the same time workers over the age of 55 will increase 46.6%.

As more workers reach the retirement age, the adverse impact of their retirements will have a significant impact on many industries and occupations. Those most affected include public administration, education and healthcare. In addition, according to the GOA, more than 50% of all federal workers will be eligible for retirement by 2005. According to research by the Hyde Group, 70-80% of all airline pilots will retire within the next 5 years. Left unaddressed, these work-force shortages threaten to stifle economic growth while likely increasing wages in high-demand occupations.

Physiological Changes of Aging
Technology skills are playing an ever-increasing role in one's employability. As boomers work into their later years, they will need to embrace new skills and technologies to remain employable. To be employable one must not only have the skills, but the devices must be usable, adaptable and customizable to compensate for the natural physiological changes of aging.

As our population lives and works longer, the likelihood of developing age-related vision, hearing and dexterity impairments increase as we approach 40. These changes directly affect the aging workers' ability to use computing devices. For some they may be an inconvenience, while for others they may become disabling. According to a 2001 report from the National Organization on Disability, people aged 45 through 54 have an 11.5 percent chance of developing a disability. This figure nearly doubles to 22 percent for those aged 55 through 64.

Solutions
In a report published this past June by the Society of Human Resource Management (SHRM), the largest obstacle citied to hiring older workers is that they do not keep up with current technology. The respondents overwhelming stated the best way for an employer to prepare for the approaching shortage of workers is to invest and increase in technical training of their pre-retirees. Clearly ongoing technology training needs to be mandatory.

[2] AARP research report "Staying Ahead of the Curve," Sept. 23, 2002

Technology has proven to be a counter-balance for people with age-related limitations and the use and implementation of accessible and assistive technologies provides a significant benefit. To be accessible, technology must be flexible enough to meet the needs and preferences of users with varied experience and abilities. Often simple customization of the device interface can provide workers the ability to adapt their computing environment to their human factor requirements. Such personalization can benefit all users by offering increased usability, productivity, efficiency and comfort.

These features can accommodate a range of vision, hearing, and mobility needs. Examples include the ability for a user to increase font size, change font settings or choose different colors for their computer screen. Accessibility features built into standard operating systems include keyboard filters that help compensate for erratic motion, slow response time and similar conditions. One such example is Microsoft StickyKeys, which allow the user to enter key combinations sequentially without having to hold one key down while depressing another. Users can adjust mouse properties such as button configuration, pointer and cursor size, and how quickly the curser responds to movements of the mouse.

While these features are included in the majority of PC's sold today, the over-whelming majority of employees and employers are unaware of these options. Additionally, few of these options and alternatives exist today for PDA's, cell phones or other portable devices, whose use is increasing daily.

For computer users with more severe disabilities, there are over a 100 third party technology vendors who create products specifically to accommodate an individual's disability. Such products include speech recognition software, alternative keyboards and touch screens; to speech synthesizers, Braille embossers and screen readers. One excellent example is the PACmate PDA for blind users made by Freedom Scientific. This device is does not rely on proprietary applications and it allows users the ability to share data and communications directly with other Information Workers

Summary

In conclusion, the interaction with technology has rapidly become woven into our lives. Unless business and industry are proactive, they will miss the opportunity to tap the considerable value of aging workers, resulting in a decline of workplace productivity and a negative impact on economic growth.

To be successful we need to focus on five areas; 1) the workplace environment, 2) the employee, 3) the devices and tools required, 4) training programs and 5) the human factors and universal design of devices, web sites and user interfaces.

The workplace environment includes ergonomics; personalize work stations as well as room lighting and ventilation. The employee needs to participate in training and education for new technologies as well as practice healthy computing exercises to reduce muscle and eye strain. Font type, size and colors need to be optimized along with the use of ergonomic keyboards and pointing devices offering enhanced control and precision. CRT monitors need to be replaced with LCD displays, which dramatically reduce eye fatigue.

Employers need to consider a comprehensive strategy that includes training policies, retention and recruitment programs. It will slow this exodus from the work force and the knowledge and talent drain while maximizing older workers' productivity. Planning for this inevitable population shift and recognizing the importance of the aging work force will help employers achieve maximum productivity and commerce.

Unfortunately the technology industry has not been committed enough to the human factors usability and universal design needs of this increasing portion of our population. Hardware, software applications, web sites and user interfaces must be both functionally usable, yet are often designed for a target audience in their twenty's. Focusing on these requirements will enhance usability and improve the computing and online experience for users of all ages.[3]

The recommendations I have discussed today are not expensive, but they take commitment and participation by employers, employees and technology vendors. Technology can extend, enhance and enrich employability for all Americans, but business and industry must adopt a "generational perspective" so that we understand and integrate mature Americans needs into tomorrow's technology. Doing so will insure their ability to continue their rich traditional of being positive role models while contributing to the nation's economy.

Mr. Chairman, I thank again you for this opportunity to share my views with the Committee. I would also like to thank ATT Wireless, American Society on Aging, Hewlett Packard and Microsoft Corporation for their input in my testimony.

[3] See "Design Guidelines for "Designing for All Ages" www.agelight.com/humanfactors/humanfactors.htm

STATEMENT OF LEORA FRIEDBERG, Ph.D., PROFESSOR, DEPARTMENT OF ECONOMICS, UNIVERSITY OF VIRGINIA, CHARLOTTESVILLE, VA

Ms. FRIEDBERG. Thank you for inviting me here today. I am Leora Friedberg. I am a Professor of Economics at the University of Virginia. I have done research on the Social Security earnings test, which I am going to talk about today.

One of the obstacles facing older workers is the earnings test, which imposes some of the highest tax rates in the economy. A beneficiary aged 62 to 64 loses a dollar in benefits for every $2 in earnings once earnings pass above a little over $11,000. That is effectively a 50 percent marginal tax rate, since total income rises by only a dollar when earnings rise by $2.

Evidence from my research suggests that older workers who are on the brink of retirement are more sensitive than younger workers to high tax rates. There are two additional features of the earnings test that are perverse.

First, it is a tax that raises virtually no revenue in the long run. A 62-year-old beneficiary who works so much in a year that her entire benefit is lost to the earnings test will gain future benefits, so that her future benefits will be raised by about 7 percent, the same thing that would happen if she had waited another year to claim Social Security. Over her remaining lifetime, this gain in the expected present value of future benefits will approximately make up for the year of benefits lost earlier.

Yet, most beneficiaries are unaware of this adjustment to future benefits and act as if they were facing a pure tax.

On the other side of the coin, the Social Security Trust Fund gains in the short run from paying out less in benefits, but loses an equivalent amount in the long run.

Second, the earnings test applies only to workers younger than Social Security's full retirement age, which is now 65 years and a few months. Then, there is no earnings test anymore. Therefore, workers face a high tax from the earnings test for a few years and may reduce their labor supply as a result. But later on it is often difficult to ramp up hours in a part-time job or to re-enter the labor force after retiring. So the effect on hours of work and on labor supply may be the same as if the earnings test were imposed on beneficiaries of all ages.

I am going to describe today the conclusions from my earlier research on the earnings test. After that I will discuss some research by others on the earnings test, as well as more recent evidence I have collected about how the earnings test continues to affect older workers.

In a study published in 2000, I analyzed how beneficiaries change their hours of work as the earnings test rules changed. Earlier rule changes reveal significant responses to the earnings test. Many workers in survey data collected by the U.S. Government responded noticeably by restricting their hours of work so that their earnings stayed just at or below the earnings test limit, which has gradually increased over time.

For example, in 1983 the earnings test was eliminated for workers age 70 to 71. Before that, one can see in the data that many of them kept their earnings just at the earnings limit. This is shown later in my statement, if you are interested in looking at the distribution of earnings. Afterwards their earnings smooth out. So we can conclude they had been restricting their hours of work because of the earnings test.

Earlier, in 1978, the earnings limit was raised from $3,000 to $4,000 for people age 65 to 71. In the data one can see the cluster of workers just below $3,000 then move their earnings up to the new higher limit. So these shifts provide evidence that older workers are sensitive to high taxes.

Based on these past responses, I used statistical methods to predict how hours of work would change if the earnings test were eliminated for ages 65 to 69. These predictions focus on hours of work among males who are already working. After I did this study, the earnings test was lifted at those ages, in the year 2000. But we do not have data yet to compare my simulation results with actual responses.

The predictions of how hours would change if the earnings test were eliminated differ in important ways depending on how much someone works and earns. Low earners, who keep their earnings just at or below the earnings limit, react most visibly to the earnings test and would be the most responsive to a change. Compared to their actual hours of work in 1995, they would be predicted to work 50 percent more on average if the earnings test were eliminated.

Medium earners, who are working somewhat more initially and losing some but not all of their benefits, might work more because the tax imposed by the earnings test is eliminated, or they might work less because eliminating the earnings test raises their total income. The estimates I obtained suggest that they would work more if the earnings test were eliminated, so that their hours of work would increase by 18 percent on average.

But, there is a different prediction for high earners who work so much that they lose all of their benefits. If the earnings test is eliminated they receive extra income but face no change in their effective tax rate since they were already earning too much to lose additional benefits. They would be predicted to work 4 percent less on average if the earnings test were eliminated. So it is important to keep in mind these different responses by different groups of workers.

Next, I will discuss some research by others on the earnings test and after that evidence of how the earnings test continues to affect older workers ages 62 to 64.

Another recent study took a different approach to analyzing the earnings test, in a paper by Jonathan Gruber of MIT and Peter Orszag of the Brookings Institution. These authors use the same data but reached somewhat different conclusions. The important difference is that they combined all of the different groups together whom I just mentioned, the low, the medium and the high earners, to analyze whether overall labor supply changed.

They reached a few key conclusions. First, they suggested that the earnings test has little effect on hours of work. This contradicts my findings. It may be attributable to their looking at everyone together which does not distinguish whether large responses among individuals are being obscured in the aggregate.

They also looked over different time periods, when the responses in the aggregate might have changed and also might obscure big responses among individual.

So, we might reach very different conclusions if eliminating the earnings test induced no response by individuals, or if it induced large but offsetting responses. In the latter case, even though the earnings test might lead some high earners to work less, the gain in well-being among low and medium earners who work more is substantial.

My results show that for low earners who kept their earnings just at earnings test limit the earnings test makes them worse off by an amount equivalent to over $1,900 annually. So, it is important to know how individuals and not just average labor supply is affected.

A second conclusion in Gruber and Orszag's research is that the earnings test may induce some people to retire completely. That is something I did not look at in my initial paper, but I have found some additional evidence in support of, which I will discuss that in a moment.

The third conclusion, or the third argument that Gruber and Orszag made, was that eliminating the earnings test for workers age 62 to 64, to whom it still applies, would have a pernicious effect down the road on some people who would benefit from it at the outset.

This argument is based on the adjustment to future benefits that I discussed earlier. If the earnings test is eliminated, those who would have lost benefits today, and also some deterred from claiming early today, would get benefits early and no longer get higher benefits in the future. The concern is that they would end up impoverished at a very old age.

This argument rests on the following assumptions: that workers would prefer to save some or all of the higher benefits that they would get today if the earnings test is eliminated in order to consume it at older ages, but that they would not actually save it even though they wanted to. Perhaps because they lack the means or the foresight and would consume it too soon.

If those assumptions hold, then we could make them better off by getting them to save through the earnings test. That is the heart of that argument.

But we have very little firm evidence about these assumptions. If they do not hold, then forcing them to postpone benefits makes them worse off, and deters labor supply.

Another way to address the same concern, that too many beneficiaries would be induced to claim too early if the earnings test was eliminated, would be to try to explain how Social Security works, and in particular that you get a good rate of return, 7 percent per year, for delaying a year's worth of benefits.

In preparation for this forum, I have analyzed recent data on the impact of the earnings test and I will briefly summarized that. Some graphs and more discussion are available in my longer statement.

I find that workers age 62 to 64 continue to react to the earnings test, with many keeping their earnings just below the earnings test limit. That is significant because, at the same time, more people at those ages are working and fewer are retiring than in the past. So, through the 1990's, more people age 62 to 64 continued to work and therefore are being inhibited by the earnings test.

Moreover, women are reacting a little more strongly than men. In my earlier study, I did not look at women because in my earlier data they were not working as often at those ages. But increasingly, they are staying in the labor force and working as well, and reacting to the earnings test.

Interestingly, increases in the real value of the earnings limit after 1996 led to a little less clustering of earnings just at the limit. So workers do continue to show responsiveness to changes in the earnings test.

In my statement, I discuss evidence that older workers age 65 to 69, continued to react up until the year 2000 when the earnings test was eliminated.

One other piece of evidence focuses on retirement. The concern is that the earnings test may lead some people to retire altogether. Even though you can earn up to $10,000 and not lose any of your benefits, either because jobs are inflexible and it is difficult to tailor your hours to the earnings test or because people are unsure about how it works, the earnings test might induce some people to retire completely.

I found that there was little trend in retirement rates among workers age 60 to 61 during the 1990's, just under the age of the earnings test. However, retirement rates fell among workers aged 62 to 64. At the same time, the earnings limit for workers age 62 to 64 was increasing. The trend matches up pretty closely, and I intend to do more research to try to understand what the magnitude of this effect is.

The effects are significant. For example, the percentage of female workers age 62 to 64 who retire each year fell from about 25 percent to 15 percent. That is quite a substantial change.

Again, by comparing them to 60 and 61-year-olds, we are controlling for other changes in the economy, for example the better economy in the late 1990's, and the recession that began 2000.

In conclusion, my research shows that the earnings test leads some beneficiaries to reduce their hours of work and perhaps to retire early.

I want to briefly summarize other research I have done on factors influencing retirement, in part because they relate to some of the presentations of the other panelists today. I have done research on computer use among older workers and I find that older workers, who use a computer retire later on average than older workers who do not. Yet, we should be concerned because firms may be reluctant to train older workers since they do not know when the workers will retire and take those skills with them.

Second, I am finding that older workers are engaging in part-time work at increasing rates, suggesting a growing flexibility of the labor market.

Third, I am finding a major shift in retirement age in response to changes in private pension structure, which no one here has mentioned yet. As many of you know, workers increasingly have defined contribution pensions like 401(k)s, instead of the traditional defined benefit pensions, where you stayed in a job for 20 to

30 years in order to get your pension benefit and then got very little incentive to stay in the job after that. Defined benefit pensions first discourage and later encourage retirement whereas the defined contribution pension is neutral toward retirement or toward changing jobs.

I am finding that people with defined contribution pensions are retiring 2 years later on average than people with defined benefit pensions, also a large difference.

Thank you. I will be happy to answer questions about my research afterwards.

[The prepared statement of Ms. Friedberg follows:]

THE SOCIAL SECURITY EARNINGS TEST AND OLDER WORKERS

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Special Committee on Aging, U.S. Senate

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SUMMARY

Introduction. One of the obstacles facing older workers is the Social Security earnings test, which imposes some of the highest tax rates in the economy. A beneficiary aged 62-64 loses $1 in benefits for every $2 in earnings once earnings pass a limit of $11,280 – effectively a 50% marginal tax rate, since total income rises by only a dollar when earnings rise by two. Moreover, evidence from my research suggests that older workers, who are on the brink of retirement, are more sensitive than younger workers to high tax rates.

There are two additional features of the earnings test that are perverse:

- First, it is a tax that raises virtually no revenue. Suppose a 62-year old beneficiary works so much in a year that her entire benefit is lost to the earnings test. In that case, all her future benefits will be raised by about 7% – the same thing that would happen if she had waited another year to claim Social Security. Over her remaining lifetime, this gain in the expected present value of future benefits will approximately make up for the year of benefits lost earlier. Yet, most beneficiaries are unaware of this adjustment to future benefits and act as if they were facing a pure tax. The other side of the coin is that the Social Security Trust Fund gains in the short-run from paying out less in benefits but loses an equivalent amount in the long-run. Thus, while the immediate costs of relaxing or eliminating the earnings test are substantial, the long-run costs approach zero.

- Second, the earnings test applies only to workers younger than Social Security's full retirement age (which is now 65 years and a few months). Therefore, workers face a high tax from the earnings test for a few years and may reduce their labor supply as a result. Later on, it is often difficult to ramp up hours in a part-time job or to re-enter the labor force after retiring, so the effect on labor supply may be the same as if the earnings test were imposed on beneficiaries of all ages.

In past research, I have analyzed how the earnings test affects older workers. Today, I will describe the conclusions of my earlier study. After that, I will discuss research by others, as well as more recent evidence that I have collected about how the earnings test continues to affect older workers.

My earlier research on the earnings test. In a study published in 2000, I analyzed how beneficiaries changed their hours of work as the earnings test rules changed. Earlier rule changes revealed significant responses to the earnings test. In my research I used large data files in which people report their earnings and hours of work. Many workers in these surveys responded noticeably by restricting their hours of work so that their earnings stayed just at or below the earnings test limit.

For example, in 1983 the earnings test was eliminated for people aged 70-71. Before that, many of them kept their earnings just at the earnings limit. Afterwards, their earnings smoothed out, so we can conclude that they had been restricting their work hours because of the earnings test. Earlier, in 1978, the earnings limit was raised from $3,000 to $4,000 for people aged 65-71. In the data, we can see the cluster of workers with earnings just below $3,000 move their earnings up to the new higher limit. These shifts provide evidence that older workers are sensitive to high taxes.

Based on these past responses, I used statistical methods to predict how hours of work would change if the earnings test were eliminated for ages 65-69. These predictions focus on hours of work among males who were already working. After I conducted the study, the earnings test was in fact eliminated in this age range, but data to compare my simulation results with actual responses is not yet available.

The predictions differ in important ways, depending on how much someone works and earns:

- Low earners, who keep their earnings just at or below the earnings limit, react most visibly to the earnings test and would be the most responsive to a change. Compared to their actual hours of work in 1995, they would be predicted to work 50% more on average, if the earnings test were eliminated.

- Medium earners, who are working somewhat more initially and lose some but not all of their benefits, might, in theory, work more because the tax imposed by the earnings test is eliminated, or they might work less because eliminating the earnings test raises their total income. Compared to their actual hours of work in 1995, and based on their earlier responses to the earnings test, the simulations predict that they would work 18% more on average, if the earnings test were eliminated.

- High earners, who work so much that they lose all of their benefits, would be induced to work less, not more. This occurs because they would receive extra income but face no change in their effective tax rate, since they were already earning too much to lose additional benefits. They would be predicted to work 4% less on average, if the earnings test were eliminated.

Next, I will discuss research by others on the earnings test, and then evidence of how the earnings test continues to affect older workers.

Research by others on the earnings test. Another recent study has taken a different approach to analyzing the earnings test. Jonathan Gruber of MIT and Peter Orszag of The Brookings Institution used the same data but reached somewhat different conclusions. They combined together all of the groups whom I just mentioned – low, medium, and high earners – to analyze whether overall labor supply changed.

Gruber and Orszag's key conclusions are the following. First, they suggested that the earnings test has little effect on hours of work. On the face of it, this contradicts my findings, but it may be attributable to a major drawback with their approach, which does not distinguish whether large responses among individuals are being obscured in the aggregate. Why is this important? We might reach very different conclusions if eliminating the earnings test induces no response by individuals, or instead if it induces large but offsetting responses. In the latter case, even though the earnings test leads some high earners to work less, the gain in well-being among low and medium earners who work more is substantial. My results showed that low earners who kept their earnings just at the earnings test limit were made worse off by an amount equivalent to over $1,900 by the earnings test. Thus, it is important to know how individuals, and not just average labor supply, is affected.

Second, Gruber and Orszag found that the earnings test may induce some people to retire. Later on, I discuss some additional evidence supporting this conclusion. This is an important result for two reasons. First, if the earnings test also affects retirement, then estimates focused on hours of work understate its impact. Second, it tells us something important about how the labor market works – in particular, that people may not be able to choose their jobs and their hours very precisely.

Third, Gruber and Orszag argued that eliminating the earnings test for workers aged 62-64 would have a pernicious effect down the road on some people who would benefit from it at the outset. This argument is based on the adjustment to future benefits discussed earlier – if the earnings test is eliminated, those who would have lost benefits today, and also those deterred from claiming early today, would no longer get higher benefits in the future. The concern is that they would end up impoverished at a very old age. This argument rests on the following assumptions: that workers would prefer to save some or all of the higher benefits that they would get today if the earnings test is eliminated to consume at older ages, but that they would not actually save them, perhaps because they lack the means or the foresight. If those assumptions hold, then we could make them better off by getting them to save through the earnings test, but otherwise if they do not hold, then forcing them to postpone receiving benefits makes them worse off. Those are controversial assumptions about which we have little firm evidence. Another way to address the same concern – that too many beneficiaries would be induced to claim too early if the earnings test is eliminated – would be to try to explain to beneficiaries how Social Security works, and in particular that the return to delaying claiming benefits is substantial.

Recent effects of the earnings test. In preparation for this Forum, I have analyzed recent data on the impact of the earnings test. I find the following:

• Workers aged 62-64 continue to react to the earnings test by keeping their earnings just below the earnings test limit, at the same time that more people at those ages are working instead of retiring. Moreover, women are reacting a little more strongly than men. Interestingly, increases in the real value of the earnings limit after 1996 led to a little less clustering of earnings at the limit, so workers continue to show responsiveness to changes in the earnings test.

• I have mentioned a few times that the earnings test may lead some people to retire altogether. I have found preliminary evidence in support of this. While there was little trend in retirement among workers aged 60-61 during the 1990s, retirement rates fell among workers aged 62-64. The percentage of male workers aged 62-64 who retired each year fell significantly, from about 25% to 20%, while the percentage of female workers fell from about 25% to 15%. Moreover, the earnings test limit for this age group rose from about 1996 on, the same time period over which the decline in retirement rates was concentrated. This demonstrates that eliminating the earnings test may lead to delays in retirement.

Conclusions. My research shows that the earnings test leads some beneficiaries to reduce their hours of work and perhaps to retire. This is not the only reason people retire early, but it has an effect. I will briefly summarize other research I have done on factors influencing retirement:

• Older workers who learn to use a computer retire later, on average, than older workers who do not. Yet, theory suggests that firms may be reluctant to train older workers, since they do not know when the workers will choose to retire.

• Older workers are engaging in part-time work at increasing rates, suggesting growing flexibility of the labor market in response to the needs and wishes of older workers.

• Shifts in the structure of private pensions are having a major effect on retirement. Workers with defined contribution pensions, like 401(k) plans, are retiring two years later, on average, compared to workers with traditional defined benefit pensions, which required workers to stay in a job 20-30 years to gain a substantial pension but then deterred additional work. It is also possible that the switch to defined contribution pensions will encourage older workers to take new, short-term jobs before retiring fully.

I will be happy to answer questions about my research on the earnings test and other factors affecting retirement.

BACKGROUND

Introduction

When Social Security was established during the Great Depression, one motive was to encourage older workers to leave the labor force and make way for younger workers. Thus, the system was designed not simply to give benefits to older workers, but also to condition benefits on retirement.

In the decades since, the typical retirement age of older workers has plummeted. The proportion of men aged 65 and over working or looking for work fell from 46% in 1950 to 17% in 1999. With life expectancy continuing to rise, the work force shrinking, and savings rates at an all-time low, the increasing length of retirement is now viewed as unsustainable.

To ease the penalty against working, the earnings test was gradually liberalized beginning in the 1950s, principally for people aged 65 and over. Most recently, the "Senior Citizens Freedom to Work Act of 2000" eliminated the earnings test for workers above the full retirement age (which is gradually increasing from 65 to 67). Beneficiaries aged 62-64 face a 50% tax rate for earnings above a limit of $11,280 – effectively a 50% marginal tax rate, since total income rises by only a dollar when earnings rise by two.

There are two additional features of the earnings test that are perverse:

• It is a tax that raises virtually no revenue. Suppose a 62-year old beneficiary works so much in a year that her entire benefit is lost to the earnings test. In that case, all her future benefits will be raised by about 7% – the same thing that would happen if she had waited another year to claim Social Security. Over her remaining lifetime, this gain in the expected present value of future benefits will approximately make up for the year of benefits lost earlier. Yet, most beneficiaries are unaware of this adjustment to future benefits and act as if they were facing a pure tax. The other side of the coin is that the Social Security Trust Fund gains in the short-run from paying out less in benefits but loses an equivalent amount in the long-run. Thus, while the immediate costs of relaxing or eliminating the earnings test are substantial, the long-run costs approach zero, since future benefits will not be raised as they are today to make up for current benefits lost to the earnings test.

• The earnings test applies only to workers younger than Social Security's full retirement age (which is now 65 years and a few months and is gradually rising to 67). Therefore, workers face a high tax from the earnings test for a few years and may reduce their labor supply as a result. Later on, it is often difficult to ramp up hours in a part-time job or to re-enter the labor force after retiring, so the effect on labor supply may be the same as if the earnings test were imposed on beneficiaries of all ages.

My earlier research on the earnings test

In a study published in 2000, my strategy was to investigate several recent changes in the earnings test rules (Friedberg 2000, Friedberg 1998). Some earlier researchers had concluded that gradual liberalization of the earnings test rules meant that the earnings test no longer "bites". They suggested that the earnings test no longer leads people to retire and has little effect on their hours of work. Two major problems arise with those earlier studies. They did not analyze data from after the 1970s, so previous results may be outdated. Also, no major changes in the earnings test rules occurred during the period studied in earlier research.

It is easy to understand how people are influenced by the earnings test by observing how they respond when it is altered; otherwise it can be more difficult, since work decisions are shaped by many factors which we cannot observe and which change over time. The data I used showed a strong response among workers to past changes in the earnings test, suggesting similar reactions if the earnings test were eliminated today. While the short-run costs of relaxing the earnings test would be substantial, the long-run costs are close to zero, since future benefits will not be raised as they are today to make up for current benefits lost to the earnings test.

The impact of the earnings test on hours of work. In my research, I studied the response of workers to the earnings test by analyzing data on how much people work and earn, and how their behavior changed when the earnings test rules changed.[1,2] In 1978, the earnings limit was raised from $3,000 to $4,000 for workers aged 65-71, while it did not change for workers aged 62-64. In 1983, the earnings test was eliminated for workers aged 70-71, while it remained in place for workers aged 62-69. Lastly, in 1990 the earnings test tax rate was lowered from 50% to 33% for workers aged 65-69, but not for workers aged 62-64. The structure of each of these rule changes, affecting people of some ages and not other similar ages, is extremely useful. It allows us to control for other potential shifts in work hours by comparing earnings and hours of the affected and the unaffected age groups over the period when the rules changed.

The earnings data show that a significant proportion of workers respond to the earnings test and that they shifted their earnings when the rules changed. Figure 1 begins by showing earnings distributions *relative to the earnings limit* before and after the limit was raised for 65-71 year olds in 1978. The graphs compare the earnings of affected 67-69 year old men and of unaffected 63-64 year old men. Figure 1-A shows, before 1978, the number of older and younger workers with earnings in each $1000 interval above and below the earnings limit, as a proportion of the total number of people in the age group.

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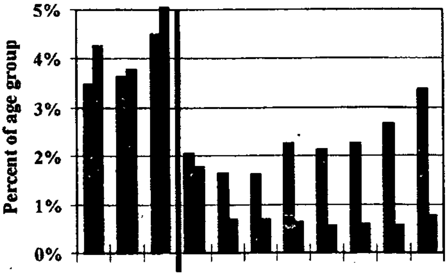
[1] In 1989 the Social Security Administration estimated that almost one million retired-worker beneficiaries lost some or all of their benefits to the earnings test, accounting for over one-third of people aged 65-69. In addition, about a couple hundred thousand beneficiaries kept their earnings just at or below the earnings limit. See Leonesio (1990) and Bondar (1993).

[2] The analysis is based on large data files collected for the Current Population Survey (CPS). People surveyed in the March CPS report their earnings and hours of work during the previous year. The data and methods are described in detail in Friedberg (2000).

Figure 1-A demonstrates a strong response to earnings test before any change in the rules. Many people in both age groups were clustered just at or below the limit – over 20% of 67-69 year old workers have earnings within $1000 below the limit, along with almost 10% of 63-64 year old workers. Roughly the same number of people appeared in each increment for several intervals, followed by a big drop from the interval just below to just above the limit.

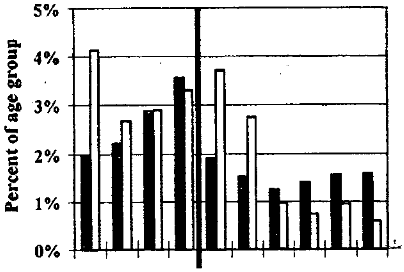
FIGURE 1-A, 1975-77



Earnings in $1000 intervals relative to the limit

■ Age 63-64 ■ Age 67-69

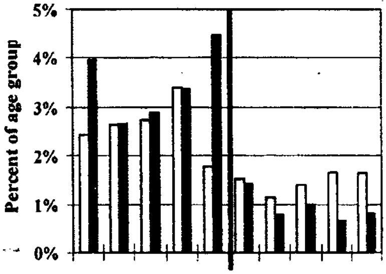
FIGURE 1-B, 1979-81



Earnings in $1000 intervals relative to the limit *for ages 62-64*

■ Age 63-64 □ Age 67-69

FIGURE 1-C, 1979-81



Earnings in $1000 intervals relative to the limit *for ages 65-71*

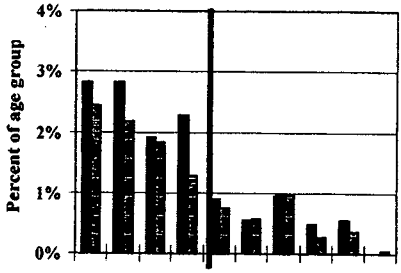
□ Age 63-64 ■ Age 67-69

After 1978, the clustered 67-69 year olds moved up to the new earnings limit. First, Figure 1-B shows earnings of both age groups in relation to the *unchanged* earnings limit of the younger group. The 63-64 year olds kept their earnings at the same point, but the 67-69 year olds clearly shifted their earnings higher. Figure 1-C shows them clustered at their new higher limit. These changes were large and statistically significant.

Figure 2 makes the same comparisons around the earnings limit before and after 1983, when the earnings test was eliminated for 70-71 year olds. Figures 2-A illustrates earnings patterns before 1983 of the affected age group.[3] They are juxtaposed with 73-75 year olds who do not face the earnings test and whose earnings decline smoothly over the same range. Figure 2-B shows the same comparisons after 1983. Now, the earnings of the affected 71-72 year olds decline smoothly over the range of the earnings limit, resembling the older group.

There was no noticeable reaction to the 1990 reduction in the earnings test tax rate. This is not inconsistent with the other strong reactions, however, because the 1990 change was smaller. The tax rate declined 17 percentage points from 50% to 33%, rather than falling to zero as it effectively did earlier. Predictions based on those earlier response suggest a small, ambiguous change in earnings when the tax rate declines.

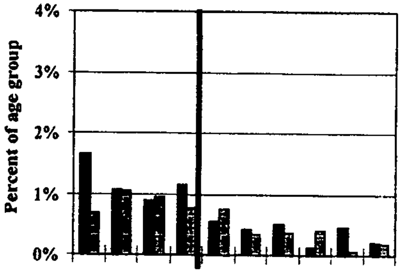
FIGURE 2-A, 1980-81



Earnings in $1000 intervals relative to the limit

■ Age 71-72 ■ Age 73-75

FIGURE 2-B, 1984-86



Earnings in $1000 intervals relative to the limit

■ Age 71-72

The data above show one particular reaction to the earnings test, among people keeping their earnings just at the earnings limit. Others working more and losing some or all their benefits to the earnings test will also react, but that reaction is more ambiguous and is thus difficult to observe above. The reasons are as follows.

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[3] Figures 2-A and 2-B actually show 71-72 year olds, since they were 70-71 when the reported earnings were earned.

The earnings test alters the incentive to work in two different ways. It changes the net wage and also the total income of beneficiaries, depending on how much a beneficiary works. Although intuition suggests the earnings test causes beneficiaries to work less, this is not unambiguously true. Facing a higher marginal tax rate will cause people to work less, but reducing income may cause people to work more. Similarly, eliminating the earnings test will not lead all beneficiaries to work more. There are three different subgroups we have to consider, depending on how much someone is working when the earnings test is in place.

- The first group, low earners is the one discussed above, consisting of people who hold their earnings just at or below the earnings limit. They will unambiguously work more when the earnings limit is raised, the earnings test tax rate lowered, or the earnings test eliminated.

- The second group, medium earners, consists of people earning somewhat more than the limit and losing some but not all their benefits. In theory, we cannot unambiguously predict whether they will work more or less if the earnings test is relaxed or eliminated. They may work more because their marginal tax rate falls or less because they have extra income. My research shows that on average people in this group will work more.

- The third group, high earners consists of people earning considerably more than the limit and losing all their benefits. Their marginal tax rate will not change when the earnings test is eliminated, but their income will rise. This will induce them to work less, if they can adjust their hours of work.

What about the increase in benefits later on? Just as people are rewarded with higher benefits in the future if they delay claiming benefits today, beneficiaries also receive an increase in all future benefits for current benefits lost to the earnings test. Someone under age 65 gets a 6 2/3% increase in future benefits for each year's worth of benefits foregone. Someone aged 65-69 gets an adjustment that is gradually approaching 8%. These credits establish a tradeoff, actuarially fair for a person with average life expectancy, between a year's worth of benefits at present and a percentage increase in all future benefits.

However, there is no evidence that the credits are taken into account with regards to the earnings test. In all likelihood, many fewer people would respond to the earnings test and restrict their earnings, as we observe them doing in Figures 1 and 2.[4] Furthermore, descriptions of the earnings test in the popular press generally fail to mention the adjustment. When both *Money* (Simon 1996) and the *Los Angeles Times* (Kristof 1997) have described how the earnings test works, neither mentioned that higher future benefits compensate for lost benefits today. The perverse result is that people respond to the earnings test as if it were a tax, yet it raises virtually no revenue over the long-run.

The predicted impact of eliminating the earnings test. I used the information implicit in the response of workers to past changes in the earnings test to develop predictions about changes today, such as eliminating the earnings test or raising the earnings limit to $30,000.

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[4] We would still expect a reaction among people with less than average life expectancy and people who are more impatient than average. Other evidence shows that more people claim benefits at age 62 than either of these factors predict, however, suggesting that people either do not know or do not care about the future adjustments.

Low earners, who keep their earnings just at or below the earnings limit are reacting most visibly to the earnings test and will be the most responsive to a change. Compared to their actual hours of work in 1995, they would be predicted to work 50% more on average, if the earnings test is eliminated. In comparison, medium earners would be predicted to work 18% more on average. As discussed earlier, they may work either more or less in theory because their marginal tax rate falls but their income rises. Thus, the evidence from past changes suggests that the tax rate effect dominates. Lastly, high earners would be predicted to work 4% less on average, because they have more income and their marginal tax rate does not change. In total, men aged 65-69 who were earning at least up to the earnings limit in 1995 would be predicted to work 5% more.

At this point, it is important to mention a caveat affecting high earners the most. These predictions have assumed that everyone can adjust their work hours flexibly. However, while those at the earnings limit do appear to have a lot of control over their hours, others who work full-time and earn more may have less flexibility. Thus, it is somewhat less likely that the group of high earners will actually change their hours, even though they are predicted to, compared to the low earners. This issue will also determine whether the earnings test affects retirement, as I discuss later.

It is interesting to compare the predictions of work hours if the earnings test is eliminated to the predictions when the earnings limit is raised to $30,000. Because this change is not as dramatic, people will not increase their work hours as much or will reduce their work hours more. The low earners would be predicted to work 34% more and the middle earners 7% more, while the high earners would be predicted to work 10% less. The differences arise because the tax rate gets pushed up onto higher earners. Raising the earnings limit removes the burden of the earnings test for many low earners but makes it bind more strongly for high earners.

One argument made against changing the earnings test is the fiscal cost. However, while the initial cost is relatively high, the long-run cost is declining towards zero, because benefits will not be lost today to the earnings test and thus future benefits will not be raised.[5] As these adjustments are approximately actuarially fair on average, the fiscal cost of eliminating the earnings test today will be virtually canceled out within a number of years.

Another possible argument against relaxing the earnings test is that it would primarily benefit high income beneficiaries. It is true that total income would rise more for high earners, but the data show that most of the distortions to behavior are observed among low and medium earners. Their work hours would rise the most if the earnings test were lifted.

Other potential effects. My research pertains directly to men aged 65-69 who are already working. Several other groups may be affected as well. I cannot offer as precise conclusions in their regard, but I will discuss some important considerations, and later I will discuss recent evidence about their reaction to the earnings test.

- It is essential to consider whether the earnings test induces people to retire. If jobs are perfectly flexible, then someone who wants to work but not lose benefits can limit their hours to

[5] Leonesio (1993) reported Social Security Administration forecasts that eliminating the earnings test for ages 65-69 would raise payouts by $4.3 billion in the first year. Income, payroll and benefits taxes due to higher earnings would offset 14.8% of the cost. That forecast was based on a very small predicted change in work hours. My research results suggest a larger offset through taxes paid as people work more.

keep their earnings below the limit. In that case, the earnings test will not cause anyone to retire completely. However, if jobs are not perfectly flexible, or if a part-time job involves a substantial cut in the hourly wage, then it may not be feasible to earn less than the limit, and retirement may be preferred to facing the earnings test. It is difficult to analyze the potential magnitude of such effects which depend on unobserved conditions of jobs, rather than on their observable work hours. Indirect evidence supports the notion that jobs are not perfectly flexible, so we might expect that eliminating the earnings test would cause some people to delay retirement.

- While my research focused on men, older women react similarly to the earnings test. Thus, we can expect a similar change in work hours if the earnings test is eliminated. A significantly smaller proportion of women work at these ages, though, so a smaller number will be affected.

- People aged 62-64 face much more restrictive earnings test rules, almost unchanged since the early 1970s. How do these younger workers respond? The data show that some hold their earnings just below the limit, as do older workers, while a greater proportion continue to work full-time. Therefore, more workers at these ages might reduce their hours, relative to older workers, if the earnings test is eliminated. However, it is among this group that the "retirement effect" of the earnings test is crucial. If the earnings test causes some 62-64 year olds to retire, eliminating it would have an extra punch because they are likely to continue working longer than 65-69 year olds.

Conclusions. The earnings test has been the subject of a great deal of popular attention, but less academic interest in recent years. I have used a new empirical strategy, analyzing the reactions to past changes in the earnings test rules, to arrive at several conclusions. The data reveal a significant number of workers clustered just at the earnings limit. The clustering demonstrates that the earnings test leads some beneficiaries to hold down their hours of work. The clustering moved when the earnings limit moved and disappeared when the earnings test was eliminated for some ages. Thus, many beneficiaries react promptly and flexibly to changes in the earnings test.

The past reactions indicate how people might respond if the earnings test is changed today. According to my estimates, men aged 65-69 who were earning at least up to the earnings limit in 1995 would be predicted to work 5% more, in total. Low earners, just at or below the earnings limit, would work 50% more, medium earners would work 18% more, and high earners would work 4% less. In comparison, people would be predicted to increase their work hours less or reduce them more when the earnings limit is raised to $30,000. These differences arise because the tax rate is not eliminated, but gets pushed up onto higher earners. Lastly, it is important to recognize that the long-run cost of eliminating the earnings test is virtually zero.

Research by others on the earnings test

A few recent studies of other countries (Canada, the United Kingdom) have found that eliminating earnings tests led to significant increases in labor supply (Baker and Benjamin 1999, Disney and Tanner 2000, Disney and Smith 2002). However, another study has taken a different approach to analyzing the earnings test in the U.S. Jonathan Gruber of MIT and Peter Orszag of The Brookings Institution used the same data but reached somewhat different conclusions (Gruber and Orszag 2000). They combined together all of the groups whom I just mentioned – low, medium, and high earners – to analyze whether overall labor supply changed.

Gruber and Orszag's key conclusions are the following. First, they suggested that the earnings test has little effect on hours of work. On the face of it, this contradicts my findings, but it may be attributable to a major drawback with their approach, which does not distinguish whether large responses among individuals are being obscured in the aggregate. Why is this important? We might reach very different conclusions if eliminating the earnings test induces no response by individuals, or instead if it induces large but offsetting responses. In the latter case, even though the earnings test leads some high earners to work less, the gain in well-being is substantial among low and medium earners who work more. My results showed that low earners who kept their earnings just at the earnings test limit were made worse off by an amount equivalent to over $1,900 by the earnings test. Thus, it is important to know how individuals, and not just average labor supply, is affected.

Second, Gruber and Orszag found that the earnings test may also induce some people to retire. They analyzed average labor force participation over time. Later on, I discuss some additional evidence supporting this conclusion. I focus instead on retirement rates specifically among those who have been working, in case re-entry into the labor force following a change in the earnings test is difficult. This is an important result for two reasons. First, if the earnings test also affects retirement, then estimates focused on hours of work understate its impact. Second, it tells us something important about how the labor market works – in particular, that people may not be able to choose their jobs and their hours very precisely.

Third, Gruber and Orszag argued that eliminating the earnings test for workers aged 62-64 would have a pernicious effect down the road on some people who would benefit from it at the outset. This argument is based on the adjustment to future benefits discussed earlier – if the earnings test is eliminated, those who would have lost benefits today, and also those deterred from claiming early today, would no longer get higher benefits in the future. The concern is that they would end up impoverished at a very old age. This argument rests on the following assumptions: that workers would prefer to save some or all of the higher benefits that they would get today if the earnings test is eliminated to consume at older ages, but that they would not actually save them, perhaps because they lack the means or the foresight. If those assumptions hold, then we could make them better off by getting them to save through the earnings test, but otherwise if they do not hold, forcing them to postpone receivingbenefits makes them worse off. Those are controversial assumptions about which we have little firm evidence. Gruber and Orszag mentioned that many people appear to claim Social Security benefits too early, given the roughly 7% real rate of return available for postponing; this, they suggest, supports the argument that people would be better off if compelled to postpone. However, another way to address the same concern – that too many beneficiaries would be induced to claim too early if the earnings test is eliminated – would be to try to explain to beneficiaries how Social Security works, and in particular that the return to delaying claiming benefits is substantial.

Recent effects of the earnings test. In preparation for this Forum, I have analyzed recent data on the impact of the earnings test. I find the following:

- Workers aged 62-64 continue to react to the earnings test, at the same time that more people at those ages are working instead of retiring.[6] The distribution of earnings at ages 63-64 is shown in Figure 3-A for men and in Figure 3-B for women. In the mid-1990s, roughly 4-5% of male workers were keeping their earnings within a range of $1,000 below the earnings test limit. In comparison,

[6] In my sample from the CPS, 41% of those aged 62-64 had positive earnings in 1991, while 48% had positive earnings in 2001.

only 1-3% of workers had earnings in other nearby $1,000 intervals. Women reacted a little more strongly, with 5-7% of workers keeping their earnings within a range of $1,000 below the earnings test limit. Interestingly, increases in the real value of the earnings limit after 1996 led to a little less clustering of earnings at the limit, so workers continue to show responsiveness to changes in the earnings test.

FIGURE 3-A
Male workers aged 63-64

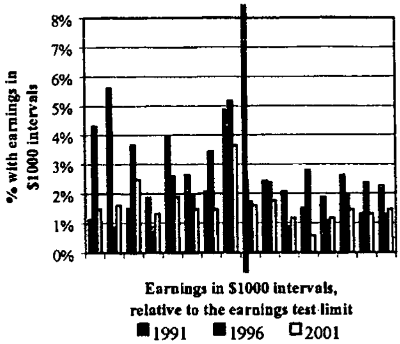


FIGURE 3-B
Female workers aged 63-64

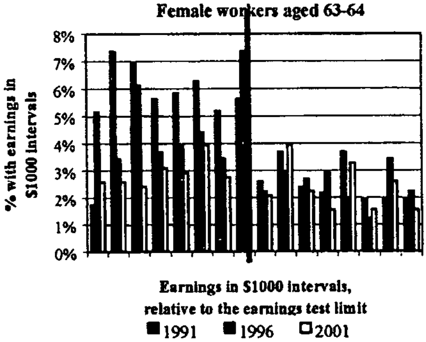


FIGURE 4-A
Male workers aged 67-69

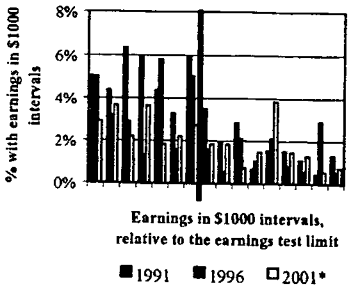
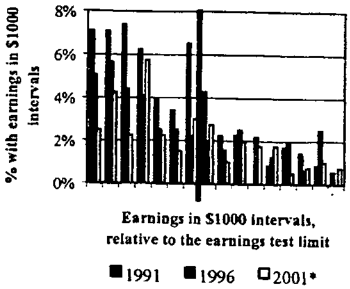
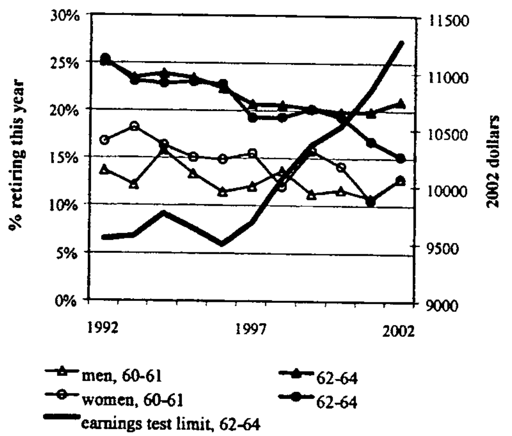


FIGURE 4-B
Female workers aged 67-69



* No earnings test in 2001; the limit applied in the data in 2001 is that from 1999.

FIGURE 5
% retiring this year, if working last year



• Workers aged 65-69 also continued to react to the earnings test, before it was eliminated in 2000. The distribution of earnings at ages 67-69 is shown in Figure 4-A for men and in Figure 4-B for women. The magnitude of clustering just at and below the earnings test limit began to diminish after the earnings limit was raised by $1,000 per year, beginning in 1996.

• I have mentioned a few times that the earnings test may lead some people to retire altogether. Figure 5 shows preliminary evidence in support of this. It shows the percentage of workers retiring by age, year, and gender. Three features stand out in the chart. First, there was little trend in retirement among workers aged 60-61 during the 1990s. Second, retirement rates fell among workers aged 62-64, especially from 1996 on. The percentage of male workers aged 62-64 who retired each year fell significantly, from about 25% to 20%, while the percentage of female workers fell from about 25% to 15%. Third, the earnings test limit for this age group rose in real terms from about 1996 on, from $9,494 in 1996 (measured in 2002 dollars) to $11,280 in 2002. Statistical analysis shows that these trends match up closely in timing. I will be conducting additional research in this area in the future to quantify the extent to which eliminating the earnings test would lead to delays in retirement.

Other factors affecting older workers. I have also done research showing the following:

• Older workers who learn to use a computer retire later, on average, than older workers who do not (Friedberg 2003). Yet, theory suggests that firms may be reluctant to train older workers, since they do not know when the workers will choose to retire.

• Older workers are engaging in part-time work at increasing rates, suggesting growing flexibility of the labor market in response to the needs and wishes of older workers (Friedberg 2001).

• Shifts in the structure of private pensions are having a major effect on retirement (Friedberg and Webb 2003). Traditional defined benefit pensions used to encourage workers to stay in a job 20-30 years to qualify for a substantial benefit, and then to leave because pension wealth is eroded by forgoing pension income. Defined contribution pensions, like 401(k), have none of these age-related incentives. We find that workers with defined contribution pensions are retiring two years later, on average, compared to workers with defined benefit pensions. It is also possible that defined contribution pensions will encourage older workers to take new, short-term jobs before retiring fully.

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STATEMENT OF MELINDA ADAMS, STATE OLDER WORKERS COORDINATOR, IDAHO COMMISSION ON AGING, BOISE, ID

Ms. ADAMS. Mr. Chairman and members of the committee, I welcome this opportunity to address how administrative changes in employment and training programs could better serve both the older worker and the employer.

I am here today representing the Idaho Commission on Aging. As the State Unit on Aging, we are responsible for all Older Americans Act programs and State funded services for older Idahoans.

I have administered older worker programs for the past 16 years. I currently manage Idaho's Senior Community Service Employment Program and serve as staff to Governor Kempthorne's State Workforce Council.

Over most of those 16 years, our programs have performed exceptionally well. In fact, the U.S. Department of Labor has profiled as best practice our older worker efforts in coordination with the broader one-stop career system, and for success in placing low income seniors in jobs.

Yet, since enactment of the Workforce Investment Act, job training has become increasingly difficult to obtain for older individuals, even in Idaho which has historically enjoyed strong State level support for older workers.

This is consistent with the GAO report issued earlier this year which found that most older people enrolled in the Workforce Investment Act received only job search assistance such as instruction on resume writing or interviewing techniques versus job training for specific jobs. Yet occupational training is so critical because many older individuals have outdated skills and no recent work experience.

Why are so few older job seekers getting the training they need? In large part, the performance measures that drive the Workforce Investment Act actually discourage older worker participation, another fact substantiated by the GAO report findings.

So, as the Workforce Investment Act is reauthorized, we urge that disincentives to serve older workers within the performance measure framework of WIA be removed. Specifically, the earnings gain measure which compares pre-registration wages with post program wages because it works against serving older individuals who want or need part-time work. It also works against people who are willing to take a pay cut over what they used to earn simply to get a job.

Additionally, we urge that local workforce boards be required to serve older job seekers; that service goals be established as part of the State and local WIA planning process; and that long-term unemployed be reinstated as an eligibility criterion for the WIA adult and dislocated worker programs.

The most critical change, reinstate designated funding to serve the older unemployed. The legislation just prior to the Workforce Investment Act, the Job Training Partnership Act, required each State to set aside 5 percent of adult training funds specifically to serve older individuals. It was a far more effective approach in that it assured service as well as providing funds to purchase the skill training that older people need. It also was an excellent complement to the Senior Community Service Employment Program also known as Title V of the Older Americans Act.

For those not familiar with Title V, it is both a public service and work experience program for needy older workers. The program pays wages, minimum wage, 20 hours a week to seniors assigned to schools, hospitals, other nonprofits. The program also, though, provides valuable infrastructure support to the aging network within the States as well as providing critical income support for many poor seniors.

At the same time, the program has evolved into an employment program, a springboard for those seniors who with occupational training and work experience can successfully compete for jobs off the program. The demand for the program is great, as evidenced by a study conducted by the Urban Institute that found that the program only reaches 2 percent of the eligible population.

However, to expect increased appropriations for Title V within this economic climate is simply unrealistic. So it seems the practical solution is to look at cost efficiencies within the program.

An immediate improvement would be to rescind the recent prohibition on the use of existing Title V grant funds for 502e activities which includes private sector work experience.

The administrative structure of the Title V program also needs revision. Currently, 78 percent of the allocation goes to 14 national aging contractors. The remaining 22 percent goes to each State for a State administered program. To illustrate, 78 percent of Idaho's allocation goes to four different national aging contractors who, in turn, each operate the program in Idaho.

Current law allows each aging contractor to take up to 13.5 percent for administration. This is duplication. If administration were streamlined, more funds would be available for services.

Additionally, within the current system, several Title V operators often cover the same geographic area, another example of duplication.

With reauthorization of the Older Americans Act coming up in 2005, now is the time to prepare for legislative change. Our recommendation is to move 100 percent of the State's allocation, including the procurement function, to the State Unit on Aging. Invite all national aging contractors, all qualified private and public entities to submit applications. In other words, competitive procurement at the State level. May the best possible service providers win.

Procurement policy could also specify one program operator per area to eliminate the current program duplicity. This approach also ensures close coordination with the workforce system within each State.

Also, the Older Americans Act now requires each Governor to prepare a State Senior Employment Services Coordination Plan and what is termed an Equitable Distribution Plan to distribute Title V funds based on where low income seniors reside within the State. However, States currently have no real enforcement authority over the national aging contractors that operate within our States. Such a change could correct these structural inconsistencies.

It is important though to note that the fear in moving the procurement function to the State is that the Title V program could be dissolved into the larger Workforce Investment Act system which would create an irreplaceable vacuum. It is essential that the dual purposes of Title V, economic self-sufficiency and community service, remain unchanged.

Title V provides much needed community support. During this past year, in Idaho alone, seniors completed 60,000 hours of public service. Thirty-seven thousand of these hours supported general community activities in libraries, schools, parks, city offices. The other 23,000 helped Idaho's elderly, cooking and delivering meals to the homebound, providing support to local aging programs.

In these difficult times, our communities and our aging service networks cannot afford to lose the Title V program. Placing procurement and administration responsibility with the State Unit on Aging would ensure continuity.

In closing, unless changes are made, employment programs—as this headline from the August 20th Wall Street Journal so aptly puts it—will leave older workers in the lurch.

Thank you. [Applause.]

[The prepared statement of Ms. Adams follows:]

Comments of Melinda M. Adams

On behalf of the

Idaho Commission on Aging

Before

The United States Senate Special Committee on Aging
Forum on the Older Workforce

Regarding

Opportunities for Administrative Improvements in Taxpayer-Financed Public Programs Designed to Enhance Older Worker Training and Placement

Washington D. C.

September 3, 2003

Mr. Chairman and Members of the Special Committee on Aging. Good Afternoon. I welcome this opportunity to address how the administration of existing employment and training programs could better serve both the older worker and employer.

I represent the Idaho Commission on Aging. As the State Unit on Aging, we are responsible for funding and establishing policy for all Older Americans Act Programs and state-funded services for older Idahoans.

I have administered older worker programs for the past sixteen years. I currently manage Idaho's Senior Community Service Employment Program, provide technical assistance to our state's Workforce Investment Act system and serve as staff to Governor Kempthorne's State Workforce Council.

Recommended Changes to the Workforce Investment Act

Over most of those sixteen years, our programs performed exceptionally well. The U. S. Department of Labor profiled as "Best Practice" our Older Worker efforts for (1) coordination with the broader One-Stop career system and for (2) success in placing low-income seniors in jobs. And yet, since enactment of the Workforce Investment Act, any substantive job training has become increasingly difficult to obtain for older individuals, even in Idaho, which historically enjoyed strong state level support for older workers. Ironically, skill training coupled with updated work experience is what older job seekers need in order to find employment.

This is consistent with the GAO Report issued earlier this year in which it was reported that most older people enrolled in WIA (49,600 people 55 years-old or older) received only job search assistance such as interviewing technique training and instruction on resume writing versus skill training for specific jobs. Occupational training is so critical because many older individuals have outdated skills and no recent work experience. And why are so few older jobseekers being trained? In large part the current performance measures that drive the Workforce Investment Act system actually discourage older worker participation, another fact substantiated by the GAO report findings.[1]

Accordingly, as the Workforce Investment Act is reauthorized, we urge that disincentives to serve older workers within the performance measure framework of WIA be removed. Specifically, the "Earnings Gain Measure" which compares pre-registration wages with post-program wages works against serving older individuals who want or need part-time work. It also works against older people who are willing to take a pay cut over what they used to earn simply to get a job.

The solution and our recommendation would be to **remove older individuals from the"Earnings Gain" performance measure** computations for both adult and dislocated worker programs.

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[1] Older Workers: Employment Assistance Focus on Subsidized Jobs and Job Search but Revised Performance measures Could Improve Access to other Services. (GAO-03-350)

Additionally, we urge:

- that local workforce boards be required to serve older, job-seekers in the eligible population
- that Older Worker service goals be established as part of the State and local WIA planning process; and
- that "Long-term Unemployed" be reinstated as an eligibility criterion for the WIA adult and dislocated worker programs. (An individual who was unemployed at least 15 of the preceding 26 weeks was considered "Long-Term Unemployed" and eligible for Dislocated Worker Services under the Job Training Partnership Act. A large number of unemployed, older individuals qualified under this eligibility factor); and
- This is the most critical change and would have the greatest impact--**reinstate designated funding to serve the older unemployed**. The legislation just prior to WIA, the Job Training Partnership Act, required each state to set-aside 5% of Adult Employment and Training funds specifically to serve older individuals. It was a far more effective approach in that it assured service to the older population as well as providing funds to purchase the skill training older people needed. It also was an excellent complement to the Senior Community Service Employment Program also known as Title V of the Older Americans Act.

Recommended Changes to Title V of the Older Americans Act

For those not familiar, the Title V Program is both a public service and work experience program for needy older workers. The program pays the wages (normally minimum wage for 20 hours per week) to seniors who are assigned to schools, hospitals, senior centers, non-profits, or government agencies.

The Title V Program provides substantive community service by supplying valuable infrastructure support to the aging network within the states, as well as providing critical income support for many poor seniors with few or no alternatives. At the same time the program has evolved into an employment program, a springboard for those seniors who, with occupational training and work experience, can successfully compete for jobs off the program. The demand for the program is great as evidenced in a study conducted by The Urban Institute found that the program only reaches 2% of those eligible. However, an increase in appropriation for Title V within this economic climate is unrealistic. And so it seems the most practical solution is to look at cost efficiencies within the program. **An immediate improvement would be to rescind the recent prohibition of use of existing Title V grant funds for 502e activities, which includes private sector work experience.**

The administrative structure of the Title V program also needs revision. Currently, 78% of each state's allocation goes to 14 national aging contractors. The remaining 22% of funds go to each state for a state-administered program. To illustrate, 78% of Idaho's allocation goes to four different national aging contractors who, in turn, each operate the Title V Program in sections of Idaho. **Current law allows each aging contractor to take up to 13.5% for administration.**

That is needless duplication of administrative funding. If administration were streamlined, more funds would be available for the seniors who need the service.

Additionally, **under the current system, several Title V contractors often cover the same geographic areas. This is another example of duplication.**

With Reauthorization of the Older Americans Act coming up in 2005, now is the time to prepare for legislative change. **Our recommendation is to move 100% of each state's allocation to the state–move the procurement function to the State Unit on Aging. Invite all national aging contractors, all qualified private and public entities to submit applications--in other words competitive procurement at the state level. May the best possible service providers win.**

Procurement policy could also specify one program operator per region to eliminate program duplicity. This approach also ensures **close coordination with the workforce system within each state.** State-level coordination requirements can be delineated in the contract and monitored. A further benefit will result.

The Older Americans Act now requires each Governor to prepare a State Senior Employment Services Coordination Plan and what is termed an "equitable distribution plan" to distribute Title V funds based on the actual location of low-income seniors within the state. However, **the States currently have no real enforcement authority over the national aging contractors that operate within our states. Such a change corrects these structural inconsistencies.**

The fear in moving the procurement function to the State is that the Title V Program could be dissolved into the larger WIA system, which would create an irreplaceable vacuum. It is essential that the dual purposes of the Title V Program, economic self-sufficiency and community service, remain unchanged. Not only have mainstream employment programs repeatedly failed to equitably serve older individuals, the Title V Program provides much needed community support. During this past year, in Idaho alone, seniors completed 60,916 hours of public service: 37,768 of those hours supported general community activities (in libraries, schools, parks and city offices). The other 23,148 helped Idaho's elderly (cooking and delivering meals to the homebound and frail elderly and providing office support to local aging and adult protective services programs.)

In these difficult economic times, our communities and aging service delivery network cannot afford to lose the Title V Program. Placing procurement and administration oversight responsibility with the State Unit on Aging will ensure continuity.

In closing, as this headline from the August 20th Wall Street Journal so aptly put it, unless administrative changes are effected, our publicly-financed employment and training programs will continue to leave "Older Workers in the Lurch".[2]

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[22] Older Workers in the Lurch. Wall Street Journal. Wednesday, August 20, 2003.

Ms. BOVBJERG. Thank you everyone.

I thought you all had really different perspectives on this overriding issue and I was interested that you talked about attitudes and training, and your support for workers, incentives, how different levels of Government are working together, and how different parts of the same Government are working together.

I found myself getting a little bit discouraged because there are so many ways to think about this. I was thinking about how we really want to create incentives and opportunities and support for older people who can work to work. You also want to make sure that employers are ready for that.

I was trying to think of the one question that can bring all of you into it.

What are the kinds of things you can do? I think Leora would say the first thing you should do is just get rid of the earnings test. But then I am thinking well, maybe it is more direct to think about what you do with the early retirement age? Because the modal retirement age is 62 and is highly influenced by Social Security rules and policies.

Or how do you work with employers? I was interested in your survey on attitudes because I think we have looked at employer surveys and things they say they are doing with older workers and phased retirement. But then we go out there and look at what they are doing and there is a real disconnect between what is actually happening and what people are saying they think about this.

So I am winding up to the big question. I wanted to ask each of you, now that you have each heard each other, do you have a different take on how you would create these kinds of incentives and supports? There were, I thought, some very specific suggestions and recommendations that came from your papers. I just wonder if you have reactions to each other?

I can start down at that end.

Ms. COHEN. One of the issues that I think became clear, which I did not address to a great extent, is the whole issue of compliance. Within the human resource management profession, we are very compliance oriented. We talk about discrimination and we talk about protecting workers and so forth.

With the issue of older workers, one of the things that I noticed in our survey, we did a few open-ended questions. One of the things that came back to us is we do not target people for age. We hire for the people who have the best qualifications for the job, regardless of age, race, gender and so forth.

So I think we have a double-edged sword here in that on the one hand, we want organizations to be compliance-oriented and they need to be compliance-oriented. On the other hand, we have a concept here of gosh, we are going to have a labor shortage and we need to be able to somehow incentivize people to want to remain in the workforce. For the organization to be able to provide training and benefits and other things to encourage these folks into the workforce.

So you need to look for people who are qualified for the jobs, which I think everyone would agree that older workers certainly can be qualified for a wide variety of jobs, having been in the workforce for a number of years in a variety of capacities.

So it is a balancing act between the compliance that we are discussing, as well as perceptions and just day-to-day interventions.

Ms. BOVBJERG. Craig.

Mr. SPIEZLE. One of the things that was interesting, I think each one of us mentioned training and skills throughout as a common theme. One of my beliefs is that the definition of literacy to be employable clearly today is beyond reading, writing and arithmetic. It is technology literacy. What we believe is technology literacy today, in 5 years and 10 years, will also be out of date.

So we have to constantly be looking at that. That is just one point.

The other challenge, as I talk to businesses, is that they are still in the recession. They are still having some tough times. They have a hard time making these other investments, where they have to go week-to-week or month-to-month. So while we are out there advocating this sea change of demographic shifts, they are focused on the here and now. So we need to look at those incentives.

The last point I want to just reiterate is being proactive. Companies will tell you training is provided for older workers at their companies, but they do not sign up for it, they do not take it. Sometimes they are not encouraged. So we need to be creative on how we can be more proactive and encouraging to the older workers, specifically in the area of workplace assessments. An older worker is not going to stand up and complain that they have a hard time using a computer, due to the fear of being viewed negatively, on that productivity or for fear of being discriminated against.

So we need to think about how to step over that line and be proactive in helping versus the contrary that is occurring today.

Ms. FRIEDBERG. Economists like to say things like if there is demand for something then the market will provided it, or it is going to happen, or it will work itself out.

But the fact that we see, for example, the misinterpretation of the earnings test rules, and that we see employees say things like, I would keep working if I had more flexible hours, and employers do not always provide those conditions sometimes that employees want makes me think there is a role for providing information.

Craig was saying that this is the information age. There is a risk that you flood people with too much information. But I think if we, for example, did more to tell workers about how Social Security worked, then there is some chance that they are going to change their views not just about the earnings test but about the whole course of their retirement.

One step has been taken by the Social Security Administration in recent years to send out benefit statements that we are all now getting once a year. The statements say this is what your Social Security benefit would be when you retire.

I think it would be interesting to actually follow up and try to evaluate what impact that has on people. Do they read those statements? Do they know what it means? Do they learn that oh, maybe I will not be getting as much from Social Security as I expected?

So I think there might be a role there for the Government, which is operating this huge program, to try to do more to get people to understand how it works.

On the private sector side, I was interested in Deb's survey work where they are looking at human resource managers and they are talking to older workers. I think there could be a role there for an increasing effort to try to understand what would keep older workers in the workplace, and whether it is more flexibility with hours and more flexibility with benefits. For example, many defined benefit pensions discourage people from working part-time near the end of their career because that is going to reduce their benefits.

So if there is some focus on specific concerns that may be remedied without too much difficulty, then I think there might be some progress. I think, to some extent, the market might take care of it. As older workers increase their interest in staying in the workforce, just as women of childbearing age like myself have, and there have been more arrangements made for maternity leave over time and flexible hours for mothers, then there might also be some change driven by the demands of older workers.

I would be interested to hear whether Deb or someone else thinks that is possible.

Ms. ADAMS. I would add that one of the key challenges is education at varying levels. On the Federal legislation level, I think it is incumbent upon us to advocate, to educate decisionmakers about the impact of employment and training legislation on the older workforce. It is critical.

I do not think that decisionmakers, policymakers understand how important it is to effect legislative change, to turn around the trends that we are now seeing.

Also, it is critical to educate employers and employees alike about the importance of training to workplace productivity. If employers understood the difference it could make in their bottom line, they would be placing much more emphasis on ongoing technology training.

I also think that those of us in the workplace as employees need to better understand that it is also our responsibility. We need to take it upon ourselves to keep ourselves up-to-date and current.

Those are a few of the key challenges I would add.

Ms. BOVBJERG. I appreciate that. I think that we too have been thinking, when we did our first report at GAO on older workers, it was very descriptive, talking about who older workers are, what industries they work in, what older workers might look like in the future, what kinds of interactions were occurring with employers. That was where we discovered that the surveys did not tell us what was going on on the ground. It is not a lot.

Part of it is the pension rules that you mentioned. We said at the end of our report that we thought that in some ways this would be market-driven and that a little further down the road that employers in particular would pay more attention to helping workers defer fuel retirement.

But in listening to the panel, I was starting to think maybe you have to help employers think that far out. They are probably not going to. We have to be prepared more.

One of the things that we found in some of our work in other countries, is you really have to think of these things comprehensively. You have to think of the public pension system and Social Security, the private pension system, and how they interact. So you are not doing something on the public side while there is a mandatory retirement age in the private sector side. At the same time you are looking at education and training, because we have seen some real disconnects there.

Joel Reaser, of the National Older Worker Career Center has asked about cost. It says that one barrier to employment of older workers is the perceived increased cost. What studies are there to compare the true relative cost of older workers versus younger cohorts? For example, increased health care cost versus low turnover costs. Increased training costs versus the value of mentoring.

Ms. COHEN. I am not aware of many specific studies. I know there has been anecdotal evidence and there has been a lot of discussions. In fact, Larry Anderson from the National Older Worker Career Center and I had a conversation just before the start of the session today about that.

I think there needs to be more research on this, because one of the things—we did an older workers study 5 years ago. Basically, the study was all about the myths surrounding it. I think that is what the issue is here right now.

There is a lot of myths of what does it cost in terms of health care? It may well be that, in fact, health care is as expensive if not more expensive for women who are in childbearing age than older workers. Or for people who have infants, for example, or small children who take them to the doctors regularly versus older workers or older individuals.

So there are a lot of cost factors. The training issue that we talked about also here. How much does it cost to train workers? There are so many issues involved here, in terms of retention of information, use of information on the job. Transfer of that training.

You mentioned, Leora, I believe, about reluctance of organizations to invest in that sort of thing. Organizations that have high turnover of any workers, lower-level workers, upper-level workers, younger, older, may be reluctant to offer that training. On the other hand, if it is seen as an investment.

So I think more studies need to be done to really look at some of these specific cost issues. It is an excellent point. Some have been done but a lot more needs to be done.

Ms. BOVBJERG. The same questioner asks about adaptation to technology and suggests there is evidence that educational level, not age, is actually the predictor. What is the implication for the need to change employer perceptions and training programs?

Mr. SPIEZLE. I am not 100 percent sure of the question there, Joel, but I will try to answer that. I think it kind of ties to your first question.

There is not an added cost really for the training of the older worker in technology, it is just making it available. Quite often it is a limited budget. What we see is that the younger workers are the ones who sign up and are encouraged to do so. It is kind of investing in the youth perspective.

From the technology perspective, in many cases, it is not a cost. It is really that the personalization and customization, the features are within the equipment they own today. But if you have some vision problems and mobility problems, you are not going to be able to navigate through all the windows and all the menus to find it in the first place.

So the cost there is being proactive. Not unlike making sure someone has their correct chair for their environment and the lighting is correct in their office, you need to take that step and customize their workplace to computing equipment.

So I see some of that happening. Part of it is regulation and fear, because of ergonomics, people are thinking about that. But we need to go a step further and look at the total ecosystem of the work environment.

Ms. BOVBJERG. When I read your paper, I thought some about Social Security and their disability programs and some of the assistive technology that they are beginning to look at as part of the Ticket To Work Program.

Mr. SPIEZLE. I will comment on that for second. There is a fine line between the physiological aspects of aging and disabilities. Clearly, I am not here to say that older workers are disabled. But there are issues that we deal with.

The incidence of color blindness increase. The mobility, the ability, the dexterity. But fortunately, in the area of disabilities, a lot of it is because of regulation, Section 508 says requiring corporations and companies to have products that are usable for people with disabilities, part of the ADA and such.

I am not sure that is the right answer, more regulation, but you do see a lot of commitment, and a lot of corporations have done a lot in the area of assistive technology for those with disabilities. But that is because of fear of suits and for regulation.

Ms. ADAMS. I might add a slightly different perspective. I think if you asked our front line older worker staff, you would find that most of them subscribe to the adult learning theory, that older workers can learn, have the capacity to learn, as much as youngers. It is just that their learning styles are different. The challenge then becomes to tailor the learning to the older worker. There is very little if no additional cost incurred by doing so.

That is just one approach that we are taking in our State and it appears to be very workable.

Ms. BOVBJERG. While you have the floor, someone asked to what do you attribute Idaho's success in their older worker program and can it be replicated in other States?

Ms. ADAMS. I think our success, in large part, is coupling occupational skill training with work experience. The population that we serve are primarily low income women. Many have spent most of their lives raising children and find themselves in a position where they have to go to work but the skill gap is huge. They have no recent work experience.

For that group, getting them the skill training they need and then allowing them to practice that in a job setting through the Senior Community Service Employment Program or work experience options available through the Workforce Investment Act or internships. That hands-on practice, coupled with technology training and peer support, seems to be what makes the critical difference in getting seniors off the program and into jobs that, hopefully, have opportunity, and decent wages and some good fringe benefits attached.

Ms. BOVBJERG. While we are talking about specifics, there is a question for Deb on the specific strategies that employers are using or that they anticipate using for extending people's work lives, that is, by encouraging people who would otherwise retire to defer retirement or phaseout of work gradually. Did you run across that?

Ms. COHEN. Yes. In fact, we did ask a question in the survey about strategies for employees who might want to work past traditional retirement. In fact, what we did is we presented six potential strategies and asked whether or not organizations were currently using them, anticipating using them, not using them at all, or not at all sure.

The six strategies were encouraging employees to work best traditional retirement. Establishing alternative career tracks for older workers. Hiring retired workers as consultants or temporary workers back into the organization. A fourth strategy, instituting a phased retirement program. For example, enabling workers to ease into retirement by reducing perhaps their work schedule. A fifth strategy was providing opportunities for workers to transfer to jobs with reduced pay and responsibilities. Then finally, providing training to update skills of older workers. So six distinct strategies.

What we found is that the majority of the respondents indicated that they were either not using those strategies or were not sure whether they were using those strategies, which is again not such great news.

The one that was, in fact, used the most was hiring retired employees as consultants or as temporary workers which is, again, something that we have seen a lot of evidence of. But 39 percent of the respondents said that they were currently doing that. Fourteen percent anticipating doing that.

The next highest one on the list was encouraging employees to work past traditional, but only about a quarter of the respondents said that. Similar to training, only about a quarter of the respondents said that they were providing training to update the skills of older workers.

So these were the six different strategies. But on the training point, I might add just as a comment to follow-up here, one of the things that we find with training is that it tends to be cut in organizations when they are having economic difficulties. So training is something that is not—we are talking about customizing perhaps training for older workers, which we know can work as far as adapted to learning styles and so forth.

But the problem with that is that it is not always realistic because customizing training for any worker, whether it is a low income worker, whether it is an older worker, or an entry-level worker, is expensive. Organizations do invest in training, but to invest those dollars specifically is very difficult.

Ms. BOVBJERG. I have a question for Craig, a very similar one, which is what can employers do? What is realistic to expect?

Mr. SPIEZLE. A few perspectives on the training. I do agree to a certain extent it can depend upon the demographic being served. There is a different aspect in need from the style and focus of your training methodology.

Just an aside, some work that I have done with the American Association of Community Colleges to focus their career training for the older worker. It was a shift. In the past they had their adult or senior training, which are often non-credit free classes and structures for volunteers, to shift their curriculum into the mainstream but focused on you had to be 50 and above or such.

So by reducing the intimidation factor was one of the things that we found in some studies was one of the big obstacles of a 50-year-old of versus being with a 20-year-old.

Also taking the curriculum and focusing it on workplace environment issues.

So that is just one thing. I do agree with you, at the end of the day it is a limited budget and the first thing to be cut.

But areas of what an employer can do, I mentioned before the workplace assessment aspect, to customize it.

There is also some things called healthy computing which I mentioned briefly. But basically training all employees on proper ergonomics, taking breaks. There is something known as the 20/20 test, which is every 20 minutes take a 20 second stretch. Focus your eyes on a subject 20 feet away. So again, reducing the eye fatigue or the muscle fatigue really goes a long way. It does not cost anything. So there are some simple things that can be done there.

The aging eye. At the age of 40 the tear ducts are not as productive. So you need to take wetting drops. Some simple things, that do not cost anything.

So simple steps that actually all employees would benefit by.

Ms. BOVBJERG. We are getting close to needing to close out but we have a couple of questions here on the earnings test. I wanted to ask you, Leora, what do you really see we should be thinking about in regard to encouraging people to work longer in the context of the Social Security system?

I am asking this because I think about the combined impact of normal retirement age, early retirement age, earnings test, COLA issues, Social Security reform, and disability all balled up.

So I just wonder if you have done work in the areas outside of the earnings test, if you had some thoughts on those areas?

Ms. FRIEDBERG. I think a lot of research suggests that, as you said earlier Barbara, the early retirement age has a big effect, being eligible for Social Security at age 62. There is some research suggesting that—I alluded to this earlier—that maybe too many people claim benefits at age 62, given the generous rate of return you get for delaying.

So maybe something, as I have said, as simple as providing some information about what your benefits would be at each age would help.

But in the long run I think that we may need to raise the early retirement age. Even, as was started in 2000, raising the full retirement age, which is implicitly reducing benefits at age 62 at the early retirement age, may not have as big an effect as just changing that age itself.

Ms. BOVBJERG. So it is more the stick than the carrot, unfortunately. We have talked a lot about carrots today.

Ms. FRIEDBERG. Yes.

Ms. BOVBJERG. There was a question here, before we wind up, about the implications of escalating health insurance cost and the elimination of retiree health benefits, speaking of the stick. What do you see there? On the employer's side, on the worker's side, for older workers?

Ms. FRIEDBERG. It seems like a huge issue. Health care costs are growing, technologies keep improving. There is more and more we can do to make people healthier and those things cost money.

I foresee that probably more and more companies will drop retiree health benefits. Perhaps the only reason to have them is to ensure loyalty. But given that Medicare will cover many of those costs for people aged 65 and older, the retiree benefit dollar itself could probably be spent better by companies elsewhere. So that can also affect the cost of Medicare in the long run.

But maybe that is going to be one of the carrots that is going to get people also to work longer, the fact that they are going to get better health insurance from their employers. That is an issue that we do not have a lot of evidence about yet.

Ms. BOVBJERG. Any last licks any of you would like to get in before we close out?

Just a little commercial for something that we recommended a few years ago at GAO. We suggested taking a comprehensive approach to helping people extend their working lifetimes. Either we have seen it in places where it is occurring or where it should be occurring, and we have certainly seen in our own disparate pension and Social Security rules and Workforce Investment Act approaches. We have not approached this as comprehensively as we probably should.

So GAO recommended that to the Department of Labor convene a task force beyond the Department of Labor, that pulls in the Federal agencies that deal with some of these other issues, and their partners at the State and local level as well.

We are still hopeful on that. Hearing what you have to say really raises the point that there is a range of things that need to be considered, and I think it just makes a comprehensive approach all the more important.

I wanted to thank you all for coming. I want to thank the Senate Aging Committee for having this forum. I hope this is the first of many in the future on this issue because I think there is still much to be said.

Thank you all for participating. [Applause.]

[Whereupon, at 4:10 p.m., the forum was concluded.]

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